



Moody's Investors Service

Rating Action: **Moody's assigns A3 IFSR to Al-Ain Ahlia Insurance Co. (UAE)**

Global Credit Research - 16 Sep 2009

First-time rating

London, 16 September 2009 -- Moody's Investors Service has today assigned a first-time insurance financial strength rating (IFSR) of A3 to Al-Ain Ahlia Insurance Co, which is based in Abu Dhabi in the United Arab Emirates. The rating outlook is stable.

Al-Ain Ahlia was created in 1975 and is one of the principal insurance companies operating in the Emirate of Abu Dhabi. Al-Ain Ahlia offers a wide range of non-life insurance lines to companies and individuals in Abu Dhabi, with a particular focus on providing property, engineering, oil & gas and motor insurance to the major state-sponsored and private commercial enterprises. In 2008, Al-Ain Ahlia recorded gross written premia of AED696 million (US\$189 million) and had total assets of AED2,179 million (US\$593 million) as at 31st December 2008. The company ranks in the top 5 in the UAE insurance market when ranked by gross premium. Al-Ain Ahlia was established by the government of Abu Dhabi, and remains partially state-owned with a 19.7% stake held by the Abu Dhabi Investment Council. As a consequence, Moody's assesses Al-Ain Ahlia as a Government-Related Issuer (GRI)

In accordance with Moody's rating methodology for GRIs, the rating of Al-Ain Ahlia reflects a combination of the following inputs: (i) a baseline credit assessment of 7 (on a scale of 1 to 21, where 1 represents the lowest credit risk); (ii) 100% dependence, reflecting the company's operating and financial proximity to the government of Abu Dhabi; and (iii) 20% support, reflecting the importance of Al-Ain Ahlia in its capacity as an insurer of government projects offset by the limited state ownership of 19.7%.

"The main standalone strength of Al-Ain Ahlia is its strong business position within the State of Abu Dhabi," says Paul Oates, Vice President -- Senior Analyst in Moody's EMEA Insurance Group. It has a tangible advantage over other insurers in that it seeks business stemming from major projects through its technical expertise, boasts a robust capital position and a reinsurance programme, benefits from state ownership as well as a long history of specialisation in engineering and energy risks.

"Al-Ain Ahlia's profitability is good, although Moody's recognizes that there is some volatility of business line performance due to the company's limited diversification," explains Mr Oates. However, these strengths are offset by the high-risk investment strategy in comparison to Western insurers. The company has large investments in local equity and property markets, which have shown some considerable volatility. Nevertheless, Al-Ain Ahlia is strongly capitalised with a gross underwriting leverage of 1.1x in 2008. If all equities and properties were deducted from capital, the gross underwriting leverage would still remain at a more than satisfactory 2.5x. In addition, Moody's notes the limited diversification, with most exposures being limited to Abu Dhabi, and the inherent risk of large single exposures through a mostly corporate book.

Moody's says that upward rating pressure for Al-Ain Ahlia may evolve over time from (1) a significant reduction in investment risk, either through a wider spread of asset classes and/or geographic exposure; and (2) through sustained profitable growth and international expansion reducing concentration risks.

Conversely, Moody's says that the rating may experience downward pressure from (1) a significant deterioration in Abu Dhabi's economic environment; (2) reduced underwriting profitability with combined ratios of above 100% for several years; and (3) a reduced capital position with gross underwriting leverage rising above 2.5x

The following rating was assigned:

Al-Ain Ahlia Insurance Co. -- A3 insurance financial strength rating, stable outlook

The principal methodology used in rating Al-Ain Ahlia was Moody's Global Rating Methodology for Property and Casualty Insurers, published in July 2008 and available on www.moody.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may

have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Based in Abu Dhabi in the UAE, Al-Ain Ahlia recorded as of H1 2009 net income of AED48.2 million and unrealised gains on investments such that total equity fell to AED1,093 million from AED1,154 million despite a dividend payment of AED 150mn. Gross Written Premium of AED354 million was fairly static compared to H1 2008 when the premium amounted to AED358 million.

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RESEARCH[Return to Regular Format](#)**Al Ain Ahlia Ins. Co.****Publication date:** January 14, 2009**Credit Analyst:** Alison Cheal, London (44) 20-7176-7078; alison_cheal@standardandpoors.com**Rationale**

Standard & Poor's has affirmed the insurer financial strength rating of Al Ain Ahlia Insurance Co at BBBpi (good). The rating reflects very strong capitalisation, good earnings and satisfactory reserves, offset to some extent by the company's exposure to equities and property and a high reliance on reinsurance.

Al Ain Ahlia is a quoted non-life insurer based in Abu Dhabi, and is one of the larger insurers in the UAE based on gross premium written. The company writes fire and general accident insurance -- including motor, engineering and energy -- which collectively comprises 93% of gross premiums written in 2007 with the balance relating to marine and aviation business which is largely reinsured. Despite increasing competition for business, gross premiums increased by 16% during 2007, reflecting the positive impact of continued strong economic growth across the region.

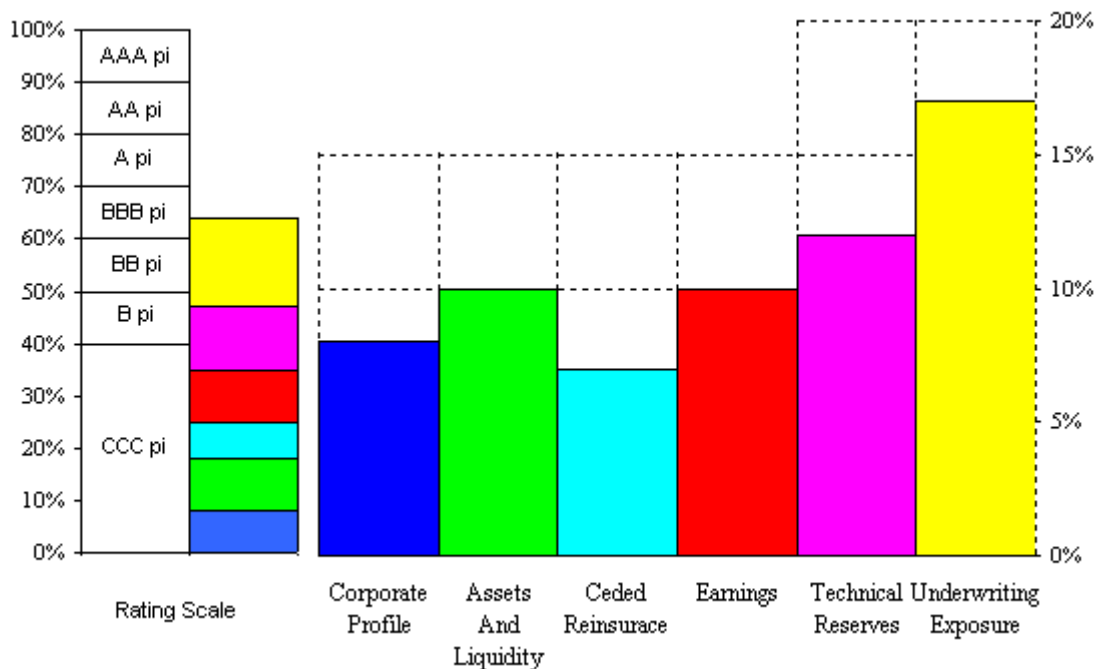
Although the amount of business retained has been slowly increasing, to 39% in 2007 from 25% in 2004, exposure to reinsurance counterparty credit risk remains significant. However the principal reinsurers used are all securely rated A- or better by Standard & Poor's, which offsets concerns.

Capitalisation is considered very strong. Based on Standard & Poor's model, capital adequacy was extremely strong as at December 2007, but this is partially offset by high exposure to equities and real estate. The value of equities held reduced at year end 2007 but still equated to 35% of adjusted shareholders' funds (ASF) (2006 48%) and investment in real estate 25% of ASF. However, cash and time deposits held in the UAE have increased significantly in 2006 and 2007 and these highly liquid assets alone generously cover technical reserves 3.8 x (2006 2.5x), although there may be some concentration risk with local banks. There is also some property concentration risk as Al Ain Ahlia's investment in land in Dubai equated to approximately 11% of ASF. The recovery of local equity markets during 2007 had a positive impact on asset value surpluses, which increased to AED 166 m from AED 104 m in 2006, but adverse volatility during the first nine months of 2008 significantly reduced these surpluses to AED16 m. Al Ain Ahlia's capital adequacy remains very strong, even under highly stressed scenarios, reflecting further market volatility in the fourth quarter.

Earnings are good, with a track record of good underwriting and pre-tax profitability. The combined ratio has however deteriorated over the last four years to 80% in 2007 compared to 66% in 2003 and appears higher than the majority of peers. As in prior years, the company's operating results continue to benefit from significant commission receipts from reinsurers and the expense ratio has remained low at around 4%. Al Ain Ahlia's overall pre-tax return on equity improved to a strong 20% in 2007 (2006 17%) thanks to increased investment income and realised investment gains. Prospective investment earnings are expected to be adversely impacted by the weakened local equity markets but will benefit from realised gains of AED 104 m emanating from the sale of investment property during September 2008.

Technical reserves are considered satisfactory. The majority of retained business is short-tail, offsetting concerns about the relatively low ratio of technical reserves to net premium written, which has remained stable at or around 65% for the last three years.

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