MOODY'S INVESTORS SERVICE

Credit Opinion: Al-Ain Ahlia Insurance Co.

Global Credit Research - 15 Jun 2010

Abu Dhabi, United Arab Emirates

Ratings

Category	Moody's Rating
Rating Outlook	STA
Insurance Financial Strength	A3

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Key Indicators

[1]**Al-Ain Ahlia Insurance Co.**

	2009	2008	2007	2006	2005
Total Assets (AED Mil.)	1,876	2,179	1,909	1,460	1,489
Equity (AED Mil.)	1,096	1,154	1,224	910	1,159
Net Income (AED Mil.)	75	144	208	183	289
Gross Premiums Written (AED Mil.)	605	696	635	548	485
Net Premiums Written (AED Mil.)	229	286	248	193	143
Gross Underwriting Leverage	0.9x	1.2x	0.8x	0.9x	0.6x
Return on Capital (1 yr.)	6.7%	12.1%	19.5%	17.7%	32.1%
Sharpe Ratio of ROC (5 yr.)	184.5%	259.6%	---	---	---
Adjusted Financial Leverage	0.0%	0.0%	0.0%	0.0%	0.0%
Total Leverage	0.0%	0.0%	0.0%	0.0%	0.0%
Earnings Coverage (1 yr.)					
Cashflow Coverage (1 yr.)					
High Risk Assets % Shareholders' Equity	66.0%	56.4%	65.2%	82.2%	61.6%
Reinsurance Recoverables % Shareholders' Equity	35.3%	53.8%	31.2%	31.7%	13.0%
Goodwill + Other Intangibles % Shareholders' Equity	0.0%	0.0%	0.0%	0.0%	0.0%
Adv/(Fav) Dev. % Beg. Reserves (1 yr.)	N/A	N/A	N/A	N/A	N/A

[1] Information based on IFRS financial statements

Opinion

SUMMARY RATING RATIONALE

Al Ain Ahlia Insurance Co. is an Abu-Dhabi based insurance company which provides all major lines of insurance, but with a focus on large commercial projects, particularly oil & gas related. It was established in 1975 and is currently 20% owned by the State of Abu Dhabi. The rating reflects Al Ain Ahlia's strong business position in the Abu Dhabi market as one of the principal state-owned insurance companies for large State commercial projects, its excellent capitalisation levels and robust reinsurance programme, somewhat offset by a higher risk investment strategy compared to typical Western insurers.

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%.

Credit Strengths

Strong business position in Abu Dhabi, as a leading Government-owned insurer

Good technical proficiency, with long history of oil & gas underwriting and co-operation with major international reinsurers

Excellent capital position, with gross underwriting leverage at 0.9x

Consistent underwriting profitability

Credit Challenges

High risk investment strategy, with large investments in equities, and some land

Focus on Abu Dhabi, does create geographic concentration risk and reliance on the Abu Dhabi economic performance

Rating Outlook

The outlook is stable

What Could Change the Rating - Up

Improvement in the asset quality, with a greater focus on high quality bond investments and deposits

Wider geographic diversity, with a commanding position in the wider Emirates or elsewhere in the GCC

What Could Change the Rating - Down

Weakened capital position with gross underwriting leverage increasing to 2.5x or lower quality reinsurance program

Deterioration in the underwriting performance, with combined ratios above 100% for several years or increased volatility between business lines

Increased exposure to risky asset classes, such as equities or property

Recent Results

At YE2009, Al Ain Ahlia recorded net income of AED 74.9mn (2008 AED 143.9mm inflated due to a one-off revaluation on real estate) Total equity fell to AED 1,096mn from AED 1,154mn due to a dividend payment of AED 150mn. Gross Written Premium, at AED 605mn was slightly lower than the AED 696mn recorded in 2008 reflecting the weaker business environment

DETAILED RATING CONSIDERATIONS

Factor 1 - Market Position, Brand and Distribution: A

Al Ain Ahlia is a primary insurance company based in Abu Dhabi. It was established in 1975 as one of two Government-owned insurers. Al Ain Ahlia concentrates primarily on construction and energy risks where they have considerable past experience and a very strong market presence.

Al Ain Ahlia scores highly on technical quotations because of its technical expertise through its co-operation with recognised leaders in the reinsurance markets, its history of oil and engineering insurance in the region, its strong reinsurance program, and its State ownership. On pricing, Al Ain Ahlia is not the most competitive, instead focusing on servicing levels

Al Ain Ahlia's government ownership and its history of Oil and Engineering expertise are regarded as its primary competitive advantages. It enjoys privileged access to Abu Dhabi Government business and with the international reinsurers who need relationships with local insurers to be able to access the State business. There is very low turnover of business and many clients have relationships with AAA from the 1970s

Al Ain Ahlia targets 15% premium growth per annum, but growth is somewhat dependent on the timing of major projects. There are significant numbers of large projects scheduled to be developed in the next 2-5 years, with with ADNOC alone planning to award numerous multibillion dollar projects in 2010-2011. The fall in premium during 2009 somewhat reflects the slowdown in the number of contracts awarded by the major State organisations, however 2010 is expected to show an improvement back to 2008 levels. Distribution is primarily through direct relationships, particularly for the government contracts, through the main office and a small network of branches in Abu Dhabi, Al Ain and Sharjah for personal lines business. Some major commercial contracts are acquired via brokers.

Moody's regards the market position as in line with an `A' range insurer

Factor 2 - Product Risk and Diversification : Baa

Geographic diversification is considered to be weak, given the focus on Abu Dhabi. Al Ain Ahlia does write some inwards reinsurance from the rest of the Gulf region, but it is low in comparison to Abu Dhabi and UAE premium levels. Nevertheless, Abu Dhabi is a strong economy within the Gulf region, with significant hydrocarbon resources and has been relatively immune from the recent financial crisis

Main lines of business include motor, Property Oil & Gas, and group medical, with smaller positions in Engineering, MAT, other small commercial lines, and life. The motor exposure is expected to reduce during 2010 as Al Ain Ahlia exited several unprofitable motor policies during 2009

Factor 3 - Asset Quality : Baa

Al Ain Ahlia invests in cash, equities and some land. As of December 2009 high risk assets (equities and land) were equal to 66% of shareholders funds representing a strong level of investment leverage, but it should be noted there are concentration risks as the equities are primarily invested in UAE stocks, mostly in Abu Dhabi. The land investment has appreciated in value during 2009 and is focused away from the higher risk areas of the UAE.

With the exception of the land, the portfolio is highly liquid, with most equities being listed. The company has no goodwill on balance sheet. Reinsurance recoverables, at 35% of equity at YE 2009 demonstrate some exposure to reinsurance partners, but it should be noted this had fallen from 40% in 2008 following the settlement of some larger claims.

Overall, asset quality is considered to be in line with `Ba'

Factor 4 - Capital Adequacy : A

With a Gross Underwriting Leverage of 0.9x, Al Ain Ahlia enjoys `Aaa' levels of capital on a raw score basis. However a considerable amount of the assets are deemed to be high risk. The Gross Underwriting Leverage with 100% of high risk assets deducted from Shareholders Funds is 2.5x which is still comfortably in the `Aa' range.

Al Ain Ahlia places significant emphasis on its reinsurance program. Indeed strong retrocession is often an important factor when the Government awards insurance contracts. Al Ain Ahlia has strong long-term relationships with most key global reinsurers. Net retentions on any single loss are limited to a maximum of US$ 250,000 for Aviation liability, with retentions significantly lower on all other lines of business, which is small in comparison to total equity of US$298mn

Nevertheless we regard capital adequacy to be in line with that of an `A' company

Factor 5 - Profitability : A

With a 5 year return on capital of 17.6% and a Sharpe ratio of 184.5% Al Ain Ahlia is highly profitable under the base metrics. Stripping out investment income, return on equity is a more modest 4% over the past 5 years, but fairly stable. Underwriting results are satisfactory, although the combined ratio rose to 102% in 2009 from 93% in 2008, reflecting a deterioration in the motor book, which restructuring has corrected and several large property and business interruption claims relating to a fire. Underwriting results will be reasonably volatile due to the lumpy nature of the portfolio.

Moody's considers the profitability to be in line with an `A' rated company

Factor 6 - Reserve Adequacy : A

Reserving is regarded as fairly low risk. The average tail is 4 months and Al Ain Ahlia appoints independent loss adjusters for all claims above AED 50,000. There is no discounting in the reserves. Reserves are typically covered with cash, and coverage level is very high at 1.5x on a gross basis and 6.5x on a net basis. IBNRs are set in line with Abu Dhabi regulatory requirements, but tend to overstate losses given the nature of the portfolio.

Reserve adequacy is viewed to be in line with an `A' rated company

Factor 7 - Financial Flexibility : Baa

Al Ain Ahlia is currently un-levered, and consequently the EBIT coverage ratios and debt leverage metrics are extremely strong and in line with a `Aaa' rating. Nevertheless, Moody's regards Al Ain Ahlia's ability to access capital would be more constrained. Al Ain Ahlia is listed on the Abu Dhabi stock exchange, and would be able to source additional funds through this, although Moody's regards the depth of the market to be fairly limited. Although we consider the financial flexibility based on limited needs, with adequate resources, to be in line with a `Baa' rating

Factor 8 - Operating Environment : Baa

Al Ain Ahlia operates almost exclusively in Abu Dhabi which Moody's views as a medium level risk for insurance operating environment. The insurance market is still in a development stage, with growth potentially volatile and with some large risk concentrations. Offsetting this is the economic stability of Abu Dhabi, which is rated Aa2 with a stable outlook reflecting its status as the richest of the emirates with high hydrocarbon wealth and the stability of the domestic political environment

OTHER RATING CONSIDERATIONS

Management, Governance and Risk Management

Moody's considers Al Ain Ahlia's risk management to be somewhat more sophisticated than peers in the region. Through its co-operations with its insurance partners Al Ain Ahlia has, in Moody's opinion, a fairly strong understanding of underwriting and reserving risks in the lines of business it writes. Al Ain Ahlia's extensive history of oil and gas insurance in the region also supports the selected underwriting. Investment risks are high, but will be closely monitored due to the limited depth of the local investment markets.

Accounting and Disclosure

Al Ain Ahlia reports under IFRS. Although disclosure is limited in comparison to Western peers, it is in line with local insurers. Disclosure by line of business could be improved.

Ownership

Al Ain Ahlia is 20% owned by the State, through the Abu Dhabi Investment Council. The Abu Dhabi Sovereign Wealth funds are approximately US$875bn in value. Further Royal family ownership is through the private investments of members of the Royal family

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