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CREDIT OPINION
16 September 2019

Update

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RATINGS

Al-Ain Ahlia Insurance Co.

Domicile	ABU DHABI, United Arab Emirates
Long Term Rating	A3
Type	Insurance Financial Strength - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Al-Ain Ahlia Insurance Co.

Update to credit analysis following the outlook change

Summary

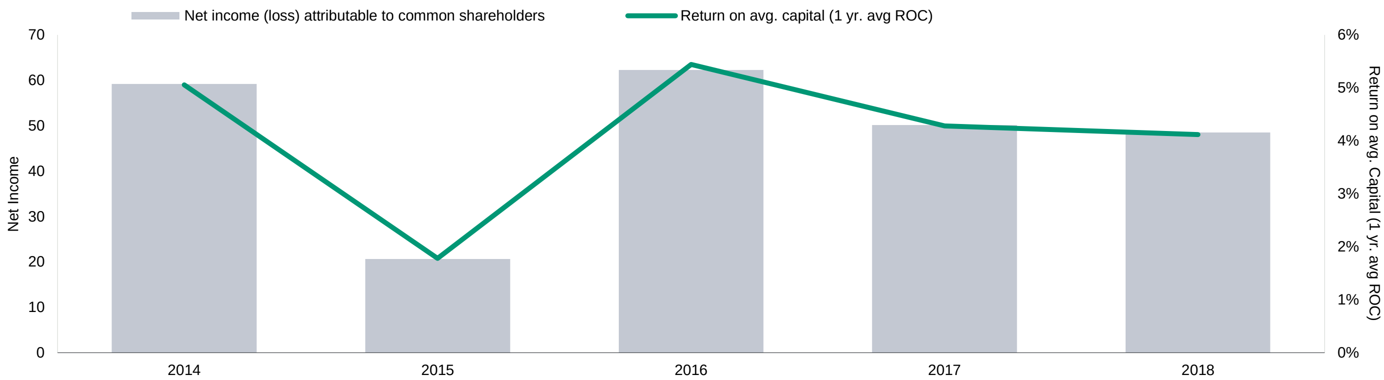
Al-Ain Ahlia Insurance Co. (Al-Ain Ahlia) is rated A3 for insurance financial strength (IFSR). Established in 1975, it is an Abu-Dhabi based insurer which provides all major insurance lines, but has created a niche for large commercial projects, particularly oil & gas related. The company is currently c.20% owned by the State of Abu Dhabi (Aa2, Stable).

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 (BCA) of a3; (ii) 90% dependence, reflecting the company's operating and financial proximity to the government of Abu Dhabi; and (iii) 30% support, reflecting the importance of Al-Ain Ahlia in its capacity as an insurer of government projects offset partially by the limited state ownership of 19.7%.

Al-Ain Ahlia's A3 IFSR reflecting: (i) its strong market position and brand, as the fourth largest player in the UAE insurance market in terms of premium as at YE 2018; (ii) good technical experience in the oil and gas business lines combined with a good cooperation with major international reinsurers; and (iii) strong underwriting profitability with a 5 year average combined ratio of 92.8% in 2018. Furthermore in terms of profitability, Al-Ain Ahlia has continued to report good profitability on a net basis in the first half of 2019 and reinsurance repayments for the large claim from ADNOC which occurred in 2017 have thus far been settled as planned by the company.

The change in outlook to stable from negative follows Al-Ain Ahlia's recovery of its regulatory solvency ratio. In 2018, the solvency ratio was in part negatively impacted by a significant increase in real estate exposure. The overall real estate exposure had increased to around 59% of invested assets as at H1 2018 from around 20% as at YE 2017, well in excess of the 30% threshold allowed by the local regulator. The solvency ratio was also dragged down by the large amount of gross reserves set up for the ADNOC claim. However as of H1 2019, Al-Ain Ahlia has successfully managed to improve its regulatory solvency. Moreover, Moody's expects Al-Ain Ahlia to maintain, and overtime strengthen, its overall capital adequacy.

Exhibit 1
Net Income and Return on Capital (1 yr. avg.)



Source: Source: Company reports, Moody's Investors Service

Credit strengths

- Strong business position in Abu Dhabi, as a leading Government-owned insurer
- Good technical experience in the oil and gas business lines combined with a good cooperation with major international reinsurers
- Strong underwriting profitability with a 5 year average combined ratio of 92.8% in 2018

Credit challenges

- High risk investment strategy, with large investments in equities and real estate
- Maintaining capital adequacy as it grows and while the large loss inflates the balance sheet assets and liabilities
- Deliberately managed geographic concentration to Abu Dhabi and thus its economy

Rating outlook

- The change in outlook to stable from negative follows Al-Ain Ahlia mitigating the risk to its capital adequacy and regulatory solvency capital that was posed by the prior year's significant increase in high risk assets. Moreover we expect Al-Ain Ahlia to maintain, and overtime strengthen, its capital adequacy.

Factors that could lead to an upgrade

- Significant reduction in investment risk, with a greater focus on high quality bond investments and deposits
- Improvement in profitability, with return on capital of over 10% and/or combined ratios below 85% consistently
- Wider geographic diversity, with a commanding position in the wider Emirates or elsewhere in the GCC

Factors that could lead to a downgrade

- The capital position weakens with gross underwriting leverage increasing to 4x or regulatory solvency capital position is not maintained at a strong level
- Lower credit quality of the reinsurance panel

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

» A further increase in exposure to risky asset classes, such as equities or real estate, with high risk assets as a percentage of shareholders' equity rising over 110%.

Key indicators

Exhibit 2
Al-Ain Ahlia Insurance Co.

Al-Ain Ahlia Insurance Co. [1][2]	2018	2017	2016	2015	2014
As Reported (UAE Dirham Millions)					
Total Assets	4,883	5,565	2,347	2,024	1,885
Total Shareholders' Equity	1,175	1,171	1,165	1,115	1,196
Net income (loss) attributable to common shareholders	48	50	62	21	59
Gross Premiums Written	1,514	1,388	964	680	600
Net Premiums Written	384	454	318	232	208
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	101.0%	101.2%	81.2%	75.1%	66.4%
Reinsurance Recoverable % Shareholders' Equity	265.8%	328.4%	67.2%	56.8%	42.4%
Goodwill & Intangibles % Shareholders' Equity	0.1%	0.0%	0.0%	0.0%	-
Gross Underwriting Leverage	4.0x	4.6x	1.5x	1.1x	0.8x
Return on avg. capital (1 yr. avg ROC)	4.1%	4.3%	5.4%	1.8%	5.1%
Sharpe Ratio of ROC (5 yr. avg)	290.3%	287.7%	284.4%	285.4%	728.9%
Adv./(Fav.) Loss Dev. % Beg. Reserves (1 yr. avg)	NA	-	-	-	-
Financial Leverage	0.3%	0.3%	0.4%	0.3%	0.4%
Total Leverage	0.3%	0.3%	0.4%	0.3%	0.4%
Earnings Coverage (1 yr.)	290.2x	492.1x	410.4x	187.3x	420.6x
Cash Flow Coverage (1 yr.)	NA	NA	NA	NA	NA

[1]Information based on IFRS financial statements as of Fiscal YE December 31. [2]Certain items may have been relabeled and/or reclassified for global consistency.
Source: Moody's Investors Service

Profile

Al-Ain Ahlia Insurance Company, established in 1975, is primarily a property and casualty (P&C) insurance company based in Abu-Dhabi, which is one of the seven emirates that compose the United Arab Emirates (UAE). It provides all major insurance lines and has a niche on large commerical projects, particularly oil & gas related. All underwriting activities are carried out in the UAE.

Al-Ain Ahlia, listed on Abu Dhabi Securities Exchange (ADX) since December 2000, is c.19.7% owned by the State of Abu Dhabi. The remaining shares are owned by public shareholders and members of the Board of Directors.

Detailed rating considerations

Market Position, Brand and Distribution: A – Leading government-owned insurer with a maintained top 5 position in UAE
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 has a sizable 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 recognized leaders in the reinsurance markets, its history of oil and engineering insurance in the region, its strong reinsurance program, and its State ownership.

Thus, despite a highly competitive UAE market, Al-Ain Ahlia has maintained its top 5 market position as number four in 2018 with reported premiums of AED1.5 billion (2017: AED1.4 billion). At H1 2019 Al-Ain Ahlia reported GPW of AED615.8 million, lower compared to H1 2018 results (AED981 million) due to a slowdown in projects due to sluggish economic conditions. Going forward we expect Al-Ain Ahlia to maintain its number 4 position in the market with a market share of over 3% by continuing to secure energy contracts and other large tenders.

Distribution is primarily through direct relationships, particularly for the government contracts, through the main office and a network of branches in Abu Dhabi, Dubai, Al Ain and Sharjah for personal lines business. Some major commercial contracts are acquired via brokers. Moody's regards Al-Ain Ahlia's market position and brand as in line with an 'A' range insurer.

Product Risk and Diversification: Baa - Diverse product offering but concentration within UAE
Geographic diversification is considered to be weak, given the management's deliberate focus on UAE and moreover Abu Dhabi. Al-Ain Ahlia does write some inwards reinsurance from the rest of the Gulf region, but it is low in comparison to its Abu Dhabi and UAE

premium levels. Nevertheless, Abu Dhabi is a strong economy within the Gulf region, with very large fiscal buffers, in the form of diversified offshore investments, which will support economic and fiscal resilience during a period of subdued growth. Al-Ain Ahlia's main lines of business include motor (20%), medical (39%) and oil and gas (25%).

Asset Quality: Baa - Previous increase in investment risk due to hotel development has been mitigated
Though Al-Ain Ahlia's investment risk remains high with HRA at 101% as of YE 20118, the deterioration caused by the hotel development has been stemmed, with the ratio stagnating from 101% as of YE 2017. As has been reported in the H1 2018 financials, the hotel development in Dubai was reclassified from capital work in progress to investment properties, thereby significantly increasing Al-Ain Ahlia’s property investment portfolio to AED965 million as at H1 2018 from AED152 million as at YE 2017. As a result the overall real estate exposure had increased to around 59% of invested assets as at H1 2018, well in excess of the 30% threshold allowed by the local regulator, likely resulting in a negative impact on the regulatory solvency capital of the company. However as the hotel is now fully operational with no further funding requirements, we do not expect the exposure to the hotel to significantly increase from the 58% of invested assets that it represented at H1 2019. Additionally the local regulator permits insurer to maintain assets above the thresholds if the regulatory solvency is maintained above 100% - which is the case as at YE 20118, H1 2019 and moreover expected to be maintained. The remaining invested assets were cash and deposits of 25% & 26% YE 2018 and YE 2017 respectively and equity investments of 13% for both YE 2018 and YE 2017.

The company has no goodwill on its balance sheet. Reinsurance recoverable to shareholders' equity, after having increased to 328% at YE 2017 from 67% at YE 2016 due to the large loss driven recoverable, are gradually decreasing, amounting to 265% at YE 20118. While there is material exposure to reinsurance counterparts we understand that these counterparts are highly rated reinsurers with whom Al-Ain Ahlia has long standing relationships.

Overall, given the recent positive development in asset quality, we have moved the asset quality score back to a 'Baa' rating.

Capital Adequacy: A - Despite weaker than historic level, capital is recovering quickly
At YE 2018 Al-Ain Ahlia's gross underwriting leverage (GUL) partially recovered to 4.0x after having spiked in 2017 at 4.6x (1.5x at YE 2016) due to the largle-loss-induced balance sheet inflation of assets and liabilities. We estimate that in the first half of 2019 the GUL metric further reduced (c.3.6x) and that the regulatory solvency position of Al-Ain Ahlia has recovered significantly following the continued large claim settlements as planned by the company and the abated increase in investment risk from the hotel investment as mentioned above in assets quality. Going forward we expect Al-Ain Ahlia to maintain and organically strengthen further its capitalisation. However we remain watchful that capital is still exposed to an elevated amount of high risk assets.

Positively, Al-Ain Ahlia places significant emphasis on its outwards reinsurance program and we note that 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 are low in comparison to total equity.

Given the recovery on regulatory capital requirements, we have moved the capital adequacy quality score back to an 'A' rating.

Profitability: A - Continued positive profitability
Al-Ain Ahlia has recorded stable and good profitability in the past years which compares favorably against its peers. The company reported a COR of 90% and 86% for YE 2018 and H1 2019 respectively (91% at YE 2017) and a RoC of 4.1% at YE 2018 (4.3% at YE 2017).

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

Reserve Adequacy: A - Positive developments in reserves
After 3 consecutive years of reserve strengthening due to (1) change in regulation on actuarial assessment (2015-2016); and (2) large losses (2017), reserves have seen some decrease over 2018. Given the sophistication of actuarial led reserve setting and monitoring we view Al-Ain Ahlia's reserve adequacy to be in line with an 'A' rating.

Financial Flexibility : Baa - Currently un-levered, but potential capital access limited
Al-Ain Ahlia is currently un-levered with the nominal leverage calculated on a Moody's basis pertains to operating lease adjustments. Consequently the earnings before interest and tax (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 as being more constrained. Al-Ain Ahlia is

listed on the Abu Dhabi stock exchange where it would be able to source additional funds, although Moody's regards the depth of this market to be comparatively limited.

We consider the financial flexibility to be in line with a 'Baa' rating.

Operating Environment : Aaa-A - Economic stability of UAE is offset by underdeveloped insurance market

Al-Ain Ahlia operates almost exclusively in Abu Dhabi which is rated Aa2 (Sovereign rating with a stable outlook). The credit strengths for Abu Dhabi include (1) its strong balance sheet, (2) very high per capita income level, and (3) strong institutional capacity. The main credit challenges for Abu Dhabi include (1) deterioration in economic and fiscal metrics caused by reliance on hydrocarbons; (2) regional geopolitical tensions, and (3) absence of public, high frequency fiscal data. The insurance market is still in a developmental stage, with growth potentially volatile and with some large risk concentrations and over-provision of insurance products leading to significant levels of price competition.

Other considerations

Management, Governance and Risk Management

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 Al Ain Ahlia's local knowledge, expertise and track record of local investments help mitigate these risks.

Ownership

Al-Ain Ahlia is 19.7% owned by the State, through the Abu Dhabi Investment Council. Further Royal family ownership exists through the private investments of members of the Royal family.

Rating methodology and scorecard factors

The aggregate profile in accordance with the Moody's scorecard indicates an A3. The public A3 Insurance Financial Strength Rating does not include any notches of support by Abu Dhabi government which is in accordance with Moody's rating methodology for Government Related Issuers (GRIs), wherein the rating of Al-Ain Ahlia reflects a combination of the following: (i) a baseline credit assessment (BCA) of a3; (ii) 90% dependence, reflecting the company's operating and financial proximity to the government of Abu Dhabi; and (iii) 30% support, reflecting the importance of Al-Ain Ahlia in its capacity as an insurer of government projects offset partially by the limited state ownership of 19.7%.

Exhibit 3

Al-Ain Ahlia Insurance Co.

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adj Score
Business Profile								A	A
Market Position and Brand (25%)								Aa	A
- Relative Market Share Ratio		X							
- Underwriting Expense Ratio % Net Premiums Written				30.0%					
Product Focus and Diversification (10%)								A	Baa
- Product Risk			X						
- P&C Insurance Product Diversification		X							
- Geographic Diversification						X			
Financial Profile								Baa	Baa
Asset Quality (10%)								Baa	Baa
- High Risk Assets % Shareholders' Equity				101.0%					
- Reinsurance Recoverable % Shareholders' Equity							265.8%		
- Goodwill & Intangibles % Shareholders' Equity	0.1%								
Capital Adequacy (15%)								A	A
- Gross Underwriting Leverage			4.0x						
Profitability (15%)								A	A
- Return on Capital (5 yr. avg)			4.1%						
- Sharpe Ratio of ROC (5 yr. avg)			290.3%						
Reserve Adequacy (10%)								Caa	A
- Adv./(Fav.) Loss Dev. % Beg. Reserves (5 yr. wtd avg)							X		
Financial Flexibility (15%)								Aa	Baa
- Financial Leverage	0.3%								
- Total Leverage	0.3%								
- Earnings Coverage (5 yr. avg)	360.1x								
- Cash Flow Coverage (5 yr. avg)									
Operating Environment								Aaa - A	Aaa - A
Aggregate Profile								A3	A3

[1]Information based on IFRS financial statements as of Fiscal YE 12/31/2018. [2]The Scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis.
Source: Moody's Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
AL-AIN AHLIA INSURANCE CO.	
Rating Outlook	STA
Insurance Financial Strength	A3

Source: Moody's Investors Service

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