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INVESTORS SERVICE

CREDIT OPINION
13 December 2016

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.

Semi-Annual Update

Summary Rating Rationale

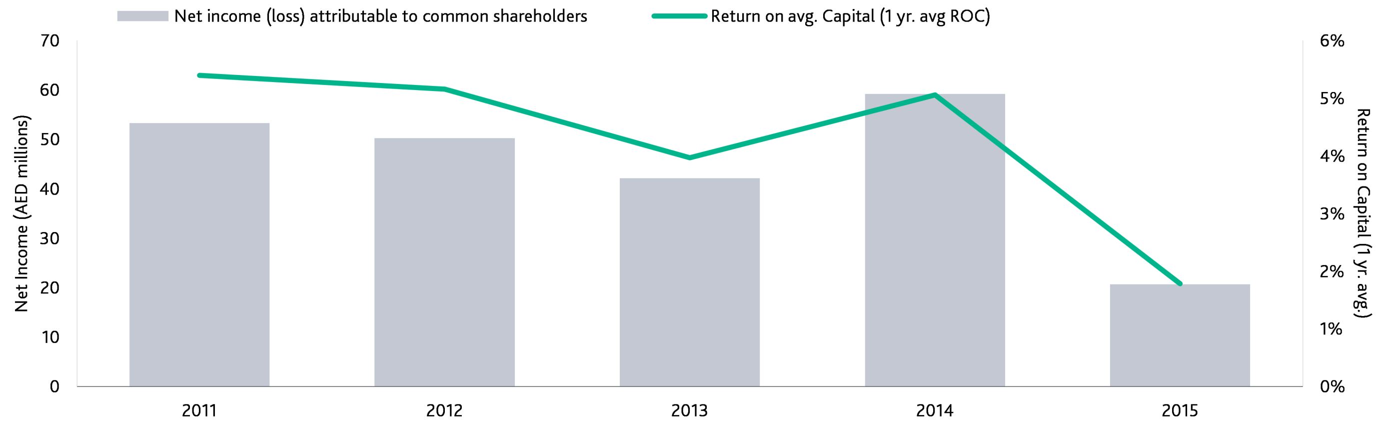
Al-Ain Ahlia Insurance Co. (Al-Ain Ahlia) is rated A3 for insurance financial strength (IFSR). Established in 1975, it is an Abu-Dhabi based insurer which provides all major insurance lines, but with a focus on large commercial projects, particularly oil & gas related. The company is currently c.20%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

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) 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 by the limited state ownership of 19.7%.

The rating also reflects Al-Ain Ahlia's (i) strong market position in the UAE insurance market; (ii) good technical experience in the oil and gas business lines combined with a good cooperation with major international reinsurers; (iii) excellent capital position; and iv) good underwriting profitability. These strengths are tempered by (i) the high risk investment strategy, with large investment in equities and real estate; and (ii) the focus on Abu Dhabi (Aa2, Negative) which creates geographic concentration risk and reliance on the Abu Dhabi economic performance.

As of 30 September 2016 (Q3 2016), Al-Ain Ahlia's high risk assets (HRA) % of shareholders' equity increased slightly to 79.2% from 75.1% at YE2015 owing to an increase in the investment properties that are currently under development. However, the company's capitalisation levels continued to be strong with a pro-forma gross underwriting leverage (GUL- which measures technical risk relative to the capital base) at 1.2x at Q3 2016 (YE2015: 1.1x). Moreover, Al-Ain Ahlia reported a combined ratio (COR) of 86.4% in the first nine months of 2016 (9M 2016), broadly in line with 86.9% reported in the same period in 2015. Net income surged by 26% in 9M 2016 to reach AED56 million compared to AED44 million in 9M 2015.

Exhibit 1
Al-Ain Ahlia's Financial Performance



Source: Company Annual Reports, Moody's Workings

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

» Excellent capital position with gross underwriting leverage at 1.1x in 2015

» Strong underwriting profitability with a 5 year average combined ratio of 92.6% in 2015

Credit Challenges

» High risk investment strategy, with large investments in equities and real estate

» Focus on Abu Dhabi, which creates geographic concentration risk and reliance on the Abu Dhabi economic performance

Rating Outlook

» The outlook is stable.

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

» 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 within business lines

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

» What to Watch for:

» Potential political instability within the wider region and the impact, if any, of the declining oil prices on the insurance market and the value of their investments

» Further pricing pressure and asset valuation volatility

Exhibit 2

Key Financial Indicators

Al-Ain Ahlia Insurance Co.[1][2]	2015	2014	2013	2012	2011
As Reported (UAE Dirham Millions)					
Total Assets	2,024	1,885	1,762	1,552	1,630
Total Shareholders' Equity	1,115	1,196	1,140	986	963
Net income (loss) attributable to common shareholders'	21	59	42	50	53
Gross Premiums Written	680	600	517	462	504
Net Premiums Written	232	208	212	196	202
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	75.1%	66.4%	75.6%	68.5%	71.4%
Reinsurance Recoverable % Shareholders' Equity	56.8%	42.4%	42.9%	50.0%	54.2%
Goodwill & Intangibles % Shareholders' Equity	0.0%	-	-	-	-
Gross Underwriting Leverage	1.1x	0.8x	0.7x	0.8x	0.9x
Return on avg. Capital (1 yr. avg ROC)	1.8%	5.1%	4.0%	5.2%	5.4%
Sharpe Ratio of ROC (5 yr. avg)	285.4%	728.9%	548.1%	NA	NA
Adv./(Fav.) Loss Dev. % Beg. Reserves (1 yr. avg)	NA	NA	NA	NA	NA
Financial Leverage	0.3%	0.4%	0.0%	0.0%	0.0%
Total Leverage	0.3%	0.4%	0.0%	0.0%	0.0%
Earnings Coverage (1 yr.)	187.3x	420.6x	NM	NM	NM
Cash Flow Coverage (1 yr.)	NA	NA	NA	NA	NA

[1] Information based on IFRS financial statements as at Fiscal YE December 31 [2] Certain items may have been relabeled and/ or reclassified for global consistency
Source: Company Annual Reports and Moody's workings

DETAILED RATING CONSIDERATION

Moody's rates Al-Ain-Ahlia A3 for insurance financial strength which is in line with the adjusted rating indicated by the Moody's insurance financial strength rating scorecard.

Market Position, Brand and Distribution: A - LEADING GOVERNMENT-OWNED INSURER WITH A TOP 10 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 concentrates primarily on construction and energy risks where they have considerable past experience and a very strong market presence. With a market share of about 1.8% in a highly competitive UAE market, Al-Ain-Ahlia is one of the 10 largest insurers in UAE. 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.

Al-Ain Ahlia historically targeted 15% premium growth per annum, but growth is somewhat dependent on the timing of major projects that had been delayed by financial crises. We note that some large projects are scheduled to be developed, and Al-Ain Ahlia will benefit from these projects. The company's premiums grew c. 13% in 2015 and is expected to further benefit from successful tenders, albeit existing soft market conditions may hinder premium growth to some extent. In 9M 2016, Al-Ain Ahlia's gross premiums grew by 29% to reach AED741 million compared to AED575 million in 9M 2015.

Distribution is primarily through direct relationships, particularly for the government contracts, through the main office and a small 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 the market position as in line with an `A' range insurer.

Product Risk and Diversification: Baa - FOCUS ON INDUSTRIAL LINES, CONCENTRATION WITHIN UAE

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 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 lower oil prices and subdued growth. Al-Ain Ahlia's main lines of business include Fire and General Accident (38%), Motor (24%), Life and Health (20%), Energy (12%) and Marine/Aviation (8%) of 2015 GPW (including commissions).

Asset Quality : Baa - HIGH CONCENTRATION TO PROPERTY AND EQUITY INVESTMENTS

HRA (which includes equities and real estate Al-Ain Ahlia's case) to shareholders' equity increased to 75.1% as at YE2015 (66.4% at YE2014) and is relatively high. The ratio further increased as at Q3 2016 to 79.2% (pro-forma basis) driven by an increase in the investment properties that are being developed, partially offset by a marginal capital increase of 3% compared to YE2015 and a reduction in equity investments. Al-Ain Ahlia investments comprised of cash/time deposits (33% and 32% as at Q3 2016 and YE2015), equities (19% and 24% as at Q3 2016 and YE2015) and investment properties (47% and 43% as at Q3 2016 and YE2015). Furthermore there are concentration risks as the equities are primarily invested in UAE stocks, mostly in Abu Dhabi. However, with the exception of the real estate, the portfolio is liquid, with most equities being listed. The company has no goodwill on its balance sheet. Reinsurance recoverable to shareholders' equity increased to 74.7% on a pro-forma basis at Q3 2016 from 56.8% as at YE2015 (YE2014: 42.4%) and demonstrate material exposure to reinsurance counterparts, although we understand that these counterparts are highly rated.

Overall, asset quality is considered to be in line with a Baa rating.

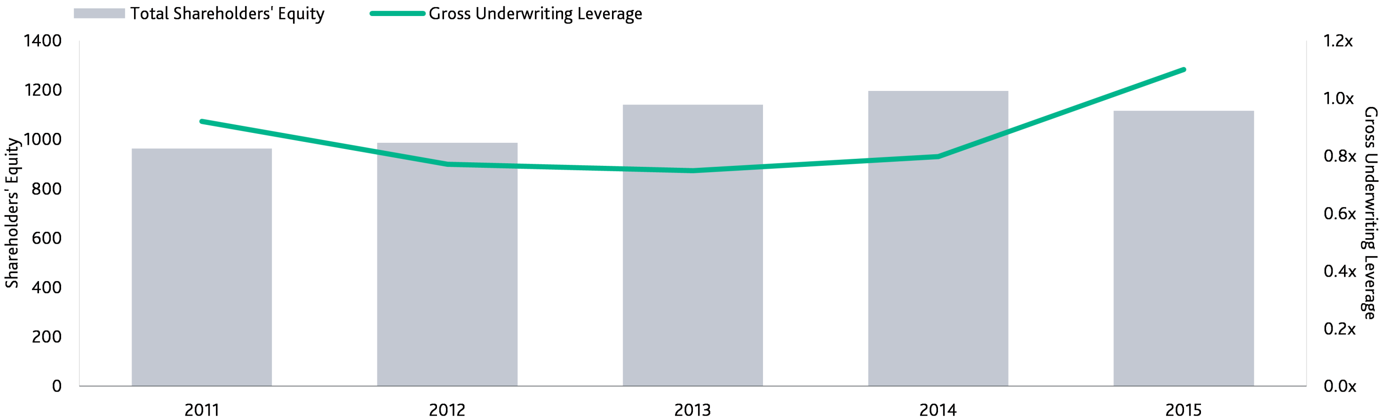
Capital Adequacy: A - HIGH CAPITAL LEVELS COMPARED TO WESTERN PLAYERS, BUT SIMILAR TO LOCAL PEERS

With a Gross Underwriting Leverage of 1.2x at Q3 2016 and 1.1x at YE2015 (YE2014: 0.8x), 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. We note that total shareholders' equity marginally increased to AED1,152 million as at Q3 2016 from AED1,115 million as at YE2015 driven by retained earnings.

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 in 2015.

We regard capital adequacy to be in line with that of an `A' company.

Exhibit 3
Al-Ain Ahlia's Capitalisation



Source: Al-Ain Ahlia's Annual Reports and Moody's workings

Profitability: A - BETTER INVESTMENT RESULTS AND UNDERWRITING QUALITY SUPPORTED PROFITABILITY IN THE FIRST NINE MONTHS OF 2016

Al-Ain Ahlia has recorded stable and good profitability in the past years which compared favorably against its peers. However, the company's profitability weakened in 2015 due to weak investment performance (specifically lower dividend income and a loss from a sale of fair value investments). Furthermore industrywide reserve strengthening resulting from implementation of actuarial led reserving requirements has also led Al-Ain Ahlia's 1 year combined ratio for 2015 to increase to 99.3% from 94.4% in 2014.

In 9M 2016, Al-Ain Ahlia's underwriting profitability was broadly in line with that of the same period in 2015, with the company reporting a COR of 86.4% (Q3 2015: 86.9%). In 9M 2016 the company reported a unrealised gain on available for sale investments of AED10.0 million vs a loss of AED15.1 million in 9M 2015. Realised income during the period was also higher and reported a net result of AED25.6 million (AED16.4 million in 9M 2015). Overall, the company reported a net income of AED56 million (AED44 million in 9M 2015).

Moody's expects the underwriting results to be reasonably volatile due to the lumpy nature of the portfolio but less on account of further reserve corrections. However we note that significant continuous deteriorations in underwriting profitability will be credit negative. With these impacts, Al-Ain Ahlia's return on capital ratio (RoC) for 2015 dropped to 1.8% from 5.1% in 2014. The 5 year RoC (2015-2011) weakened to 4.3% from 5.1% in 2014.

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

Reserve Adequacy: A - ACTUARIAL LED RESERVE REQUIREMENTS HAS STRENGTHENED THE RESERVES

In 2015, Al-Ain Ahlia strengthened its reserves based on actuarial assessments following new regulations issued by the UAE Insurance Authority. The incurred but not reported (IBNR) reserve increased to AED91.6 million (2014: AED 2 million) and Al-Ain Ahlia also provided AED21 million for unallocated loss adjustment expense (ULAE) reserve, thereby strengthening technical reserve levels. Additionally reserving is regarded as fairly low risk as the average tail is 4 months and Al-Ain Ahlia appoints independent loss adjusters for all claims above AED50,000.

Reserves are typically covered with cash, and coverage level (on a net of reinsurance basis) is very high at 21.1x in 2015 (2014: 16.7x) (0.7x on a gross basis for 2015 and 0.9x for 2014).

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

Financial Flexibility : Baa - CURRENTLY UNLEVERED, 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 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 fairly 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 negative outlook). The credit strengths for Abu Dhabi include (1) very strong government balance sheet, (2) very high per capita income level, and (3) domestic political stability coupled with strong international relations. The main credit challenges for Abu Dhabi include: (1) expected deterioration in economic and fiscal metrics caused by reliance on hydrocarbons; (2) lack of visibility on medium-term fiscal policy; and (3) regional geopolitical tensions. 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

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

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 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

Exhibit 4

Al-Ain Ahlia's Scorecard

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adjusted Score
Business Profile								A	Baa
Market Position and Brand (25%)								A	A
- Relative Market Share Ratio			X						
- Underwriting Expense Ratio % Net Premiums Written		23.0%							
Product Focus and Diversification (10%)								A	Baa
- Product Risk			X						
- P&C Insurance Product Diversification		X							
- Geographic Diversification						X			
Financial Profile								Aa	A
Asset Quality (10%)								Aa	Baa
- High Risk Assets % Shareholders' Equity			75.1%						
- Reinsurance Recoverable % Shareholders' Equity		56.8%							
- Goodwill & Intangibles % Shareholders' Equity	0.0%								
Capital Adequacy (15%)								Aaa	A
- Gross Underwriting Leverage	1.1x								
Profitability (15%)								A	A
- Return on Capital (5 yr. avg)			4.3%						
- Sharpe Ratio of ROC (5 yr. avg)			285.4%						
Reserve Adequacy (10%)									A
- Adv./(Fav.) Loss Dev. % Beg. Reserves (5 yr. wtd avg)									
Financial Flexibility (15%)								Aa	Baa
- Financial Leverage	0.3%								
- Total Leverage	0.3%								
- Earnings Coverage (5 yr. avg)									
- Cash Flow Coverage (5 yr. avg)									
Operating Environment								Aaa - A	Aaa - A
Aggregate Profile								Aa3	A3

[1] Information based on IFRS financial statements as of Fiscal YE December 31 [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: Company Annual Reports and Moody's workings

Ratings

Exhibit 5

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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