

CREDIT OPINION

18 November 2024

Update



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RATINGS

Al-Ain Ahlia Insurance Co.

Domicile	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.

Contacts

Mohammed Ali +971.4.237.9503
Londe

Vice President - Senior Analyst
mohammed.londe@moody's.com

Sotiris Mertzios +971.4237.9532

Senior Ratings Associate
sotiris.mertzios@moody's.com

Brandan Holmes +44.20.7772.1605

VP-Sr Credit Officer
brandan.holmes@moody's.com

Antonello Aquino +44.20.7772.1582

MD-Financial Institutions
antonello.aquino@moody's.com

CLIENT SERVICES

Americas 1-212-553-1653

Asia Pacific 852-3551-3077

Japan 81-3-5408-4100

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Al-Ain Ahlia Insurance Co.

Update to credit analysis

Summary

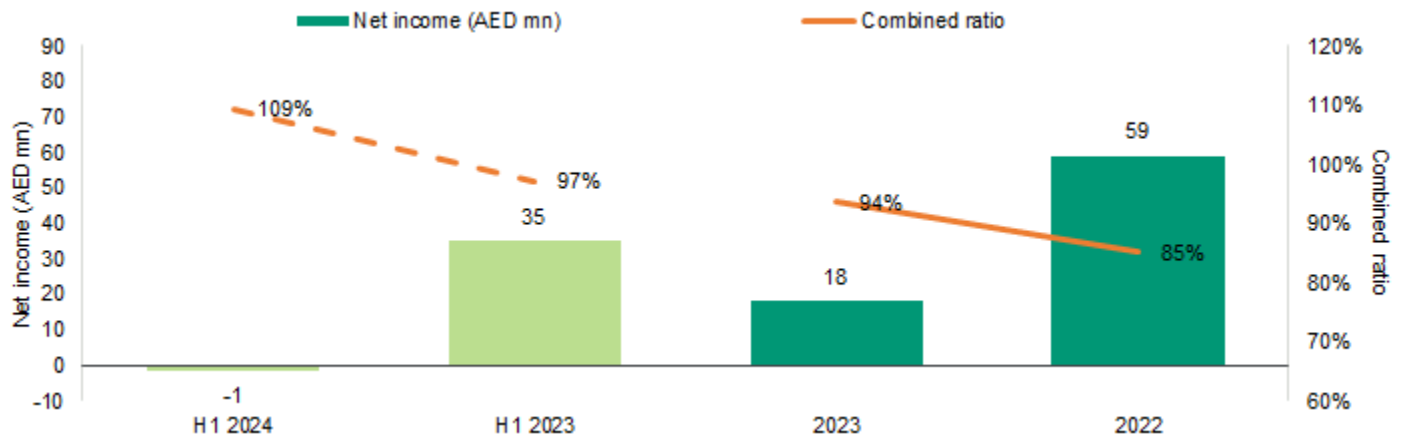
Al-Ain Ahlia's A3 insurance financial strength rating (IFSR) reflects (i) the company's strong market position and brand, as top five insurer in the UAE insurance market; (ii) good technical underwriting experience in the oil and gas business lines and long-standing relationships with major international reinsurers; and (iii) strong capitalisation which continues to grow organically with a gross underwriting leverage (GUL) of 1.8x at YE 2023. Furthermore, the insurer's market position and franchise benefits from its association with the Abu Dhabi government, through its minority ownership of Al-Ain Ahlia.

These strengths are tempered by (i) elevated asset risk due to high exposure to equities and to real estate with concentrated exposure to a small number of large properties, such that high risk assets (HRA) as a percentage of shareholders' equity remains elevated at 104.5% at YE 2023; (ii) very limited geographic diversification given the focus on Abu Dhabi (Aa2, Stable) which creates geographic concentration risk and reliance on the Abu Dhabi economic performance; and (iii) challenges of profitable diversification and growth in the competitive UAE insurance market.

Furthermore the A3 IFSR of Al-Ain Ahlia reflects no uplift from its a3 BCA (a measure of the company's standalone credit risk) and reflects our assumptions of low government support given that government ownership is just 19.7%, and high dependence, reflecting the company's operating and financial proximity to the Government of Abu Dhabi. That said, we expect that the government ownership could support Al-Ain Ahlia's IFSR at its current level in the event of some deterioration of its BCA.

Whilst Al-Ain Ahlia has a good track record of underwriting profitability, this has recently declined with the combined ratio (COR) of 93.6% for 2023 weakening from 85% in 2022 and below 80% prior to 2022. This has impacted overall profitability as well with a decline in average return on capital (ROC) to 2.5% in 2023 from levels higher than 5% prior to 2022. Furthermore, the insurer's profitability was negatively impacted by significant flooding in the UAE earlier this year, with the COR rising to around 109% for the first half of 2024. While this highlights the exposure to natural catastrophe events through its large commercial exposures, given managements actions to strengthen underwriting terms and further enhancements to its reinsurance balance sheet protection, we expect profitability to revert to more normal levels going forward.

Exhibit 1

Al-Ain Ahlia's profitability indicators

Source: Moody's Ratings and company filings

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 capitalisation which continues to organically grow

Credit challenges

- » High risk investment strategy, with large investments in equities and real estate
- » Deliberately managed geographic concentration to Abu Dhabi and thus to its economy
- » Profitably growing business volume and diversification in the competitive UAE insurance market

Rating outlook

The stable outlook reflects our expectation that Al-Ain Ahlia will maintain a good market position in its core lines of business, while continuing to achieve profitable growth supported by strong capital adequacy.

Factors that could lead to an upgrade

- » Greater level of implicit or explicit support from the Abu Dhabi government
- » Strengthened market position amongst the top five UAE insurers, in terms of business volume and geographic diversification
- » Significant reduction in investment risk, with a greater focus on high quality bond investments and deposits with HRA as a percentage of shareholders' equity around 50%
- » Improved profitability, with for example, a COR consistently below 90%

Factors that could lead to a downgrade

- » Al-Ain Ahlia losing significant premiums generated from the major state-sponsored and private commercial enterprises in Abu Dhabi; and/or

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- » A significant decline in the extent of reinsurance protection or deterioration in quality of the reinsurance panel
- » Deterioration in capital adequacy with GUL increasing to over 4x or regulatory solvency capital position not being maintained at a strong level
- » Deterioration in underwriting performance, with COR consistently above 100%
- » Increased exposure to risky asset classes, such as equities or real estate, with HRA as a percentage of shareholders' equity rising over 110%

Key indicators

Exhibit 2

AL-Ain Ahlia Insurance Co. [1][2]

AL-Ain Ahlia Insurance Co. [1][2]	2023	2022
As Reported (UAE Dirham Millions)		
Total Assets	2,506	2,453
Total Shareholders' Equity	1,330	1,312
Net Income (Loss) Attributable to Common Shareholders	35	59
Insurance Revenue	1,429	1,107
Moody's Adjusted Ratios		
High Risk Assets % Shareholders' Equity	104.5%	96.5%
Reinsurance Recoverables (or Reinsurance Contract Assets) /Shareholders' Equity	57.9%	64.8%
Goodwill & Intangibles % Shareholders' Equity	0.0%	0.0%
Gross Underwriting Leverage	1.8x	1.6x
Return on Average Capital (ROC)	2.5%	4.4%
Sharpe Ratio of ROC (5 yr.)	NA	NA
Adv. (Fav.) Loss Dev. % Beg. Reserves	-0.3%	-7.6%
Financial Leverage	1.3%	1.0%
Total Leverage	1.3%	1.0%
Earnings Coverage	39.2x	87.0x
Cash Flow Coverage	NA	NA
Net Unrealized Gain(Loss) % Shareholders' Equity	16.3%	15.0%

[1]Information based on IFRS17 financial statements as of the fiscal year ended 31 December 2023; previous years' financial statements were prepared under legacy IFRS 4, which are not comparable to IFRS17 and are not included in the exhibit. [2] Certain items may have been relabeled and/or reclassified for global consistency.

Source: Company filings and Moody's Ratings

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 commercial 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

Good market position is strength and diverse mix is positive

Market Position, Brand and Distribution: Leading government-owned insurer and maintained brand despite drop in market position from 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. The company benefits from a strong market position and brand in Abu Dhabi, supported by its affiliation with the government, recognized technical underwriting expertise in commercial lines and long-standing partnerships with leading reinsurers that enable it to channel global reinsurance capacity to the local market. While its motor and medical businesses bolster its size and market share, we consider its leading position in commercial insurance to be the key driver of its franchise strength.

With this Al-Ain Ahlia remains a top five UAE insurer with insurance revenue in 2023 up by 29% to AED 1.4 billion up from AED 1.1 billion. Recently Al-Ain Ahlia has continued to expand its participation in the UAE government's business including the Workers Protection Program and Involuntary Loss of Employment program, both of which are profitable businesses for Al-Ain Ahlia, as well as increased business volume in other lines.

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.

Product Risk and Diversification: Diverse product offering but concentration within UAE

Geographic diversification is considered to be weak, given the management's deliberate focus on UAE and Abu Dhabi in particular. 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 has a diverse mix of business which in 2023 included energy 49%, motor 15%, fire 9%, accidents 8%, engineering 8%, marine/aviation 5%, medical 5%, liability 2% and miscellaneous 1%.

Strong capital which continues to organically grow is credit positive

Asset Quality: high risk asset exposure remains elevated

Al-Ain Ahlia's high risk assets (HRA) as a % shareholders' equity increased to 104.5% in 2023 from 96.5% in 2022 driven by higher exposure to total below investment grade or not rated fixed income, equities as well as real estate.

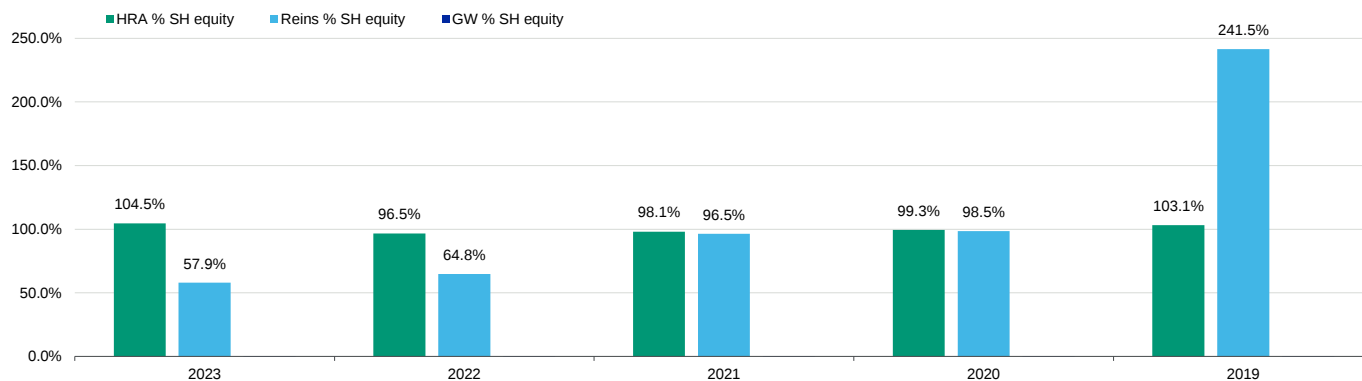
The company has significant exposure to real estate investments, accounting for 52% in 2023 concentrated in a small number of properties. The remaining invested assets were cash and deposits of 15%, equity 28%, fixed income 11% at YE 2023.

We expect that the company's balance sheet and capital will remain exposed to volatility in asset valuations (equity and real estate), but that the company's intent and ability to hold these assets over the long-term limits the risk of valuation losses being realised.

The company has no goodwill on its balance sheet. Reinsurance recoverable to shareholders' equity improved to 57.9% in 2023 from 64.8% in 2022, however is expected to increase again given the large reinsurance recoverable claims triggered by the [storms that impacted the UAE in April](#). More positively, Al-Ain Ahlia's long standing reinsurance relationships and its continued strong access to reinsurance abate the risk of recoverability whilst the high quality of its reinsurance partners moderates the counterparty risk.

Exhibit 3

Asset quality indicators



Source: Moody's Ratings and company filings

Capital Adequacy: Capital strength has been maintained but remains exposed to market volatility

Al-Ain Ahlia has maintained strong capital levels including good buffers above its regulatory capital requirements. Moreover we expect Al-Ain Ahlia to continue to organically strengthen its capitalisation via profits. Given the growth in business, at YE 2023 Al-Ain Ahlia's gross underwriting leverage slightly deteriorated to 1.8x from 1.6x in 2022 however still remaining strong. Additionally for 2024 we expect the storm related significantly higher claims reserves (payable and recoverable) to pressure capitalisation in 2024, however as these claims are settled, supported by the reinsurers, and the impacted underwriting profitability normalises, capitalisation will revert to its organically growing trend.

Nevertheless, in the short to medium term, market volatilities heightened by high risk assets exposure will continue to impact Al-Ain Ahlia's capital as discussed in the asset quality section.

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.

Profitability: recent decline given competition pressures and impact of April storms on underwriting

Whilst Al-Ain Ahlia has a good track record of underwriting profitability, this has recently declined with the combined ratio (COR) of 93.6% for 2023 weakening from 85% in 2022 and below 80% prior to 2022 given the challenges of profitable diversification and growth in the competitive UAE insurance market. This has impacted overall profitability as well with a decline in average return on capital (ROC) to 2.5% in 2023 from levels higher than 5% prior to 2022.

Furthermore, the insurer's profitability was negatively impacted by significant flooding in the UAE earlier this year, with the COR rising to around 109% for the first half of 2024. This resulted in Al-Ain Ahlia reporting a net loss of AED1.4 million for H1 2024 compared to a net income of AED18 million in H1 2023. While this highlights the exposure to natural catastrophe events through its large commercial exposures, given managements actions to strengthen underwriting terms and further enhancements to its reinsurance balance sheet protection, we expect profitability to revert to more normal levels going forward.

Reserve Adequacy: Positive developments in reserves

Reserves have consistently seen favorable development over 2019-2023 indicating the prudent reserve setting approach of Al-Ain Ahlia. Overall reserving risk is considered as moderate given the short-tailed nature of majority of the business. Commercial insurance carries higher risk but the sophistication of actuarial led reserve setting and monitoring has brought sophistication to reserve setting as well as adequacy. Additionally the recent establishment of the in-house actuarial department is expected to further aid underwriting and reserving going forward.

Financial Flexibility: 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. Nevertheless, we regard 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 we regard the depth of this market to be comparatively limited.

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

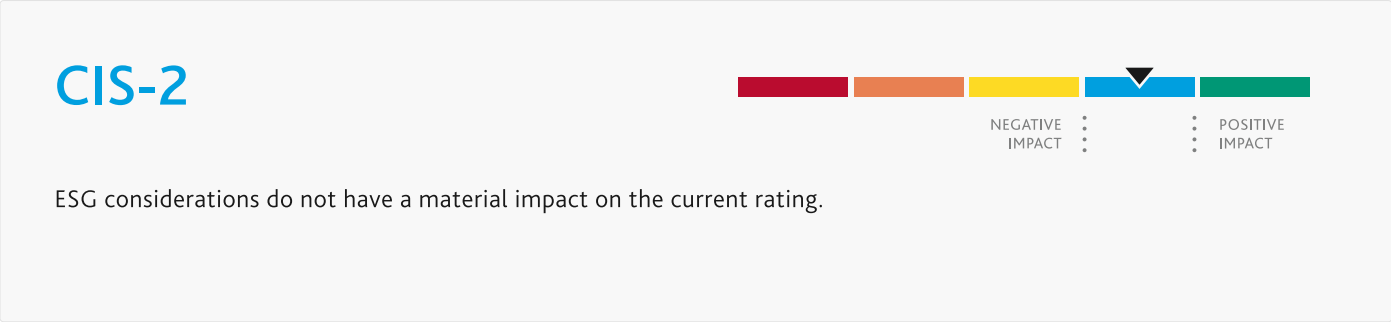
Al-Ain Ahlia operates almost exclusively in Abu Dhabi which is rated Aa2 (Sovereign rating with a stable outlook). The credit strengths for Abu Dhabi include: 1) Large government financial assets that far exceed public sector liabilities, 2) Very high GDP per capita and large hydrocarbon reserves, 3) Track record of institutional credibility and policy effectiveness. The main credit challenges for Abu Dhabi include: 1) Heavy economic and fiscal reliance on the hydrocarbon sector, 2) Exposure to regional geopolitical tensions, 3) Shortcomings in data disclosure and policy transparency relative to similarly-rated peers.

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.

ESG considerations

Al-Ain Ahlia Insurance Co.'s ESG credit impact score is CIS-2

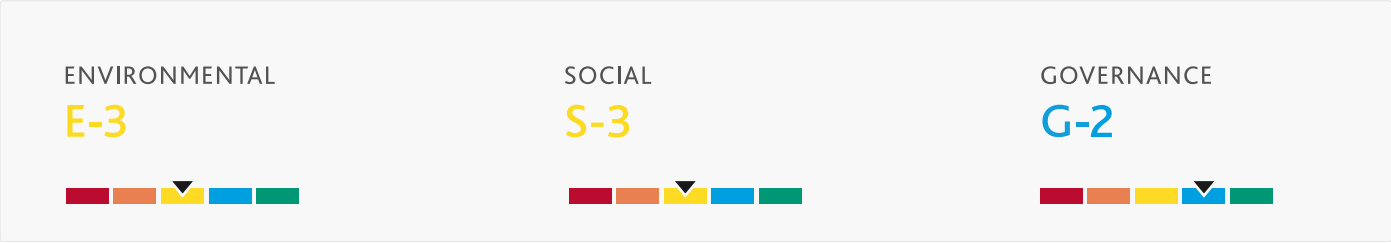
Exhibit 4
ESG credit impact score



Source: Moody's Ratings

Al-Ain Ahlia Insurance Co.'s (Al-Ain Ahlia's) **CIS-2** indicates that ESG considerations do not have a material impact on the current rating. This reflects the limited credit impact of environmental and social risk on its rating to date. The company's good risk management and established governance practices mitigate its exposure to environmental and social risks, in particular carbon transition risk which is also mitigated to an extent by the time horizon over which this risk is expected to become more material.

Exhibit 5
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Al-Ain Ahlia has moderate exposure to environmental risks, mainly because of carbon transition risk. The company has exposure to carbon-intensive sectors in its energy and state linked underwriting book as well as being indirectly exposed through its investment portfolio and insurance premiums that are linked to the UAE economy, which derives a significant portion of its revenues from the hydrocarbon industry. Physical climate risk is moderate in the GCC region with low levels of natural catastrophes historically, albeit that the frequency of severe weather events has been rising gradually and the UAE is susceptible to rising sea levels which are expected over time.

Social

Al-Ain Ahlia has moderate exposure to social risk related to customer relations and demographic and societal trends. Customer relations risk arises as a result of its focus on retail insurance lines, handling of sensitive customer data, and increasing regulatory focus on insurers' customer conduct issues. Demographic and societal trends can make the operating environment more challenging, particularly for its life and medical insurance businesses where societal trends and government policy decisions can impact claim trends. The company's diversified product base and conservative reserving practices moderate these social risks to some extent.

Governance

Al-Ain Ahlia faces low governance risks, and it benefits from good risk management, policies and procedures. Management has a good track record of meeting its business objectives whilst maintaining its focus on risk management and an appropriate financial strategy

characterized by low leverage and good regulatory capital. The company is part owned by the Abu Dhabi government (owning 20%), and the remaining stake held by a widely diversified investor base. The company benefits from good board oversight due to its strong board including independent directors.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

In accordance with our rating methodology for Government-Related Issuers (GRIs), the A3 IFSR of Al-Ain Ahlia reflects no uplift from its a3 baseline credit assessment (BCA, a measure of the company's standalone credit risk) and results from a combination of the following inputs: (i) a BCA of a3; (ii) 70% dependence, reflecting the company's operating and financial proximity to the government of Abu Dhabi (Aa2, stable); 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 government ownership of 19.7%. That said, we expect that the government ownership could support Al-Ain Ahlia's IFSR at its current level in the event of some deterioration of its BCA.

Rating methodology and scorecard factors

Exhibit 6

Rating Factors

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	ScoreAdj	Score
Business Profile								A	A
Market Position, Brand and Distribution (25%)								A	A
-Relative Market Share Ratio			X						
-Net Underwriting Expense Ratio					X				
Product Focus and Diversification (10%)								A	Baa
-Product Risk			X						
-P&C Insurance Product Diversification		X							
-Geographic Diversification						X			
Financial Profile								Aa	Baa
Asset Quality (10%)								A	Baa
-High Risk Assets % Shareholders' Equity				X					
-Reinsurance Recoverables (or Reinsurance Contract Assets) / Shareholders' Equity		57.9%							
-Goodwill & Intangibles % Shareholders' Equity	0.0%								
Capital Adequacy (15%)								Aaa	A
-Gross Underwriting Leverage	X								
Profitability (15%)								Baa	Baa
-Return on Capital (5 yr. avg.)				2.5%					
-Sharpe Ratio of ROC (5 yr.)									
Reserve Adequacy (10%)								Aa	A
-Net Loss Reserves Development / Beginning Net Loss Reserves (5 yr. wtd. avg.)		-2.7%							
Financial Flexibility (15%)								Aa	Baa
-Financial Leverage	1.3%								
-Total Leverage	1.3%								
-Earnings Coverage (5 yr. avg.)	63.1x								
-Cash Flow Coverage (5 yr. avg.)									
Operating Environment								Aaa - A	Aaa - A
Preliminary Standalone Outcome								A1	A3

[1] Information based on IFRS17 financial statements as of fiscal year ended 12/31/2023. [2] The Scorecard rating is an important component of the company's published rating, reflecting the standalone financial strength before other considerations (discussed above) are incorporated into the analysis.

Source: Moody's Ratings

Ratings

Exhibit 7

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

Source: Moody's Ratings

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