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Emirates Insurance Co. (PSC)

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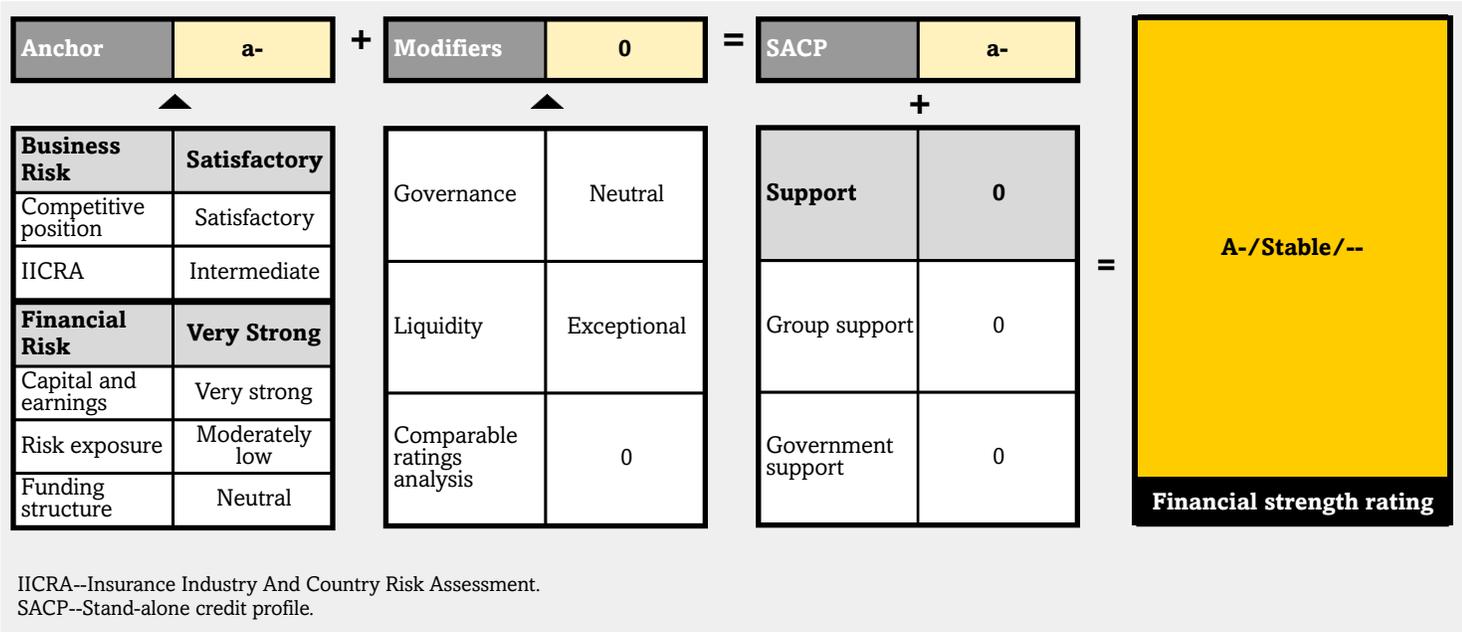
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Emirates Insurance Co. (PSC)



Credit Highlights

Overview

Strengths	Risks
Well capitalized insurer with capital adequacy above our 'AAA' benchmark.	Potential volatility in earnings and capital, due to relatively high exposure to equity investments.
Consistently strong operating performance and overall earnings.	Relatively small size of operations when compared to similar rated peers in the highly competitive United Arab Emirates (UAE) market.

S&P Global Ratings expects Emirates Insurance Co. (PSC)'s (EIC's) capital adequacy will remain a key rating strength over the next two years. In 2020, EIC's total shareholders' equity remained stable and capital adequacy, as measured using our risk-based model, remained in excess of the 'AAA' benchmark. We expect this to continue over the next two years.

EIC is likely to maintain relatively strong operating performance. We expect that EIC will maintain strong underwriting results in 2021 and 2022, thanks to its conservative underwriting approach. In 2020, EIC reported a combined (loss and expense) ratio of 88.3% compared with 92.9% in 2019. The five-year average net combined ratio is 88.6% over 2016-2020, outperforming the overall listed insurers market in the UAE.

EIC's portfolio of equity investments exposes profitability to fluctuations in capital markets, but we expect capital adequacy will be maintained. At Dec. 31, 2020, equity investments made up about 45% of EIC's investment portfolio, with the company experiencing profit volatility in the first half of last year linked to capital markets. However, we expect EIC's capital buffers to support capital adequacy at the current level.

EIC's small size in terms of premiums and absolute capital inform our choice of anchor. EIC is among the top-six listed insurance companies in the UAE but is smaller in terms of premiums and absolute capital base than similarly rated UAE peers. We reflect this aspect by selecting the lower of two anchor choices, based on the business and financial

risk assessment.

Outlook: Stable

The stable outlook reflects our view that EIC's capital adequacy will remain at the 'AAA' level, as measured by our risk-based capital adequacy model, supported by profitable earnings over the next two years.

Downside scenario

We could lower the ratings if:

- There is an unexpected and significant decline in shareholders' equity, or we see a marked shift toward more high-risk assets, leading to a decline in the company's risk-based capital adequacy to the 'AA' level or below; and
- Although currently not expected, if we observe any significant weaknesses relating to governance and internal controls.

Upside scenario

Although unexpected, we could raise the ratings over the next two years if EIC:

- Continues to expand its premium base and profitability, both domestically and internationally, while outperforming its local peers; and
- Maintains its 'AAA' capital adequacy, measured by our model, and continues to derisk its investment portfolio.

Key Assumptions

- Following an about 6.1% decline in real GDP in the UAE in 2020, GDP growth will recover to about 2.7% in 2021.
- Gross written premium (GWP) growth in the UAE insurance market will likely remain relatively flat in 2021, due to economic uncertainty and a decline in the expat population in Dubai and other emirates in 2020-2021.

Emirates Insurance Co. (PSC)--Key Metrics

(Mil. AED)	--Year-end Dec. 31--				
	2022f	2021f	2020	2019	2018
S&P Global Ratings' capital adequacy*	Excellent	Excellent	Excellent	Excellent	Extremely strong
Gross premiums written (mil. AED)	~1030	~1000	1,040	1,147	1,043
Net combined ratio (%)	~90	~90	88.3	92.4	82.7
Reinsurance utilization (%)	55-60	55-60	54.2	49	48.4
Net income attributable to all shareholders (mil. AED)	90-100	90-100	108.3	113.2	114.1
Return on shareholders' equity (%)	~9	~9	9.9	10.1	10.4

*Capital adequacy for 2018 is based on our old insurance criteria. AED--United Arab Emirates dirham. f--S&P Global Ratings' forecast.

Business Risk Profile: Satisfactory

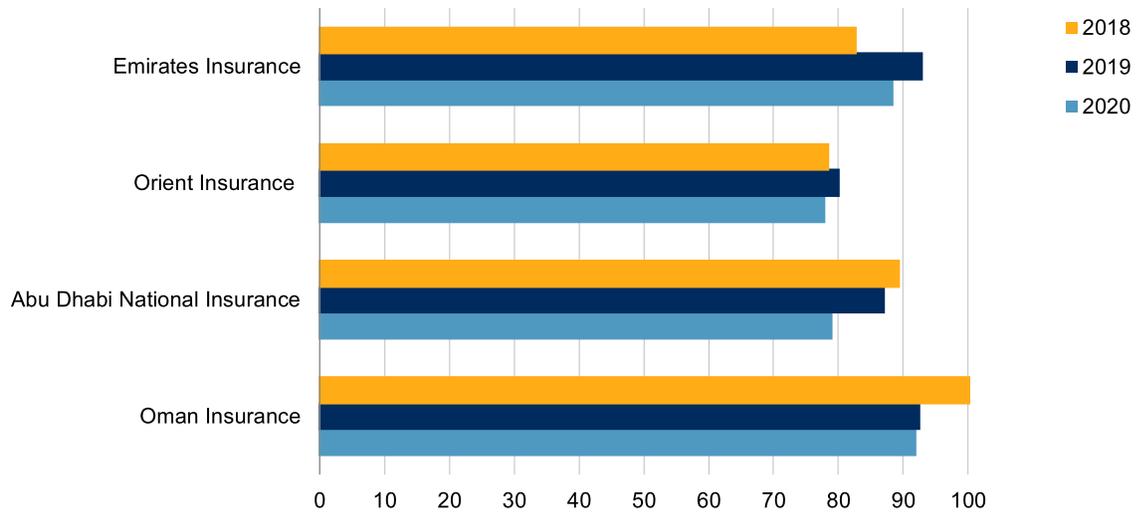
EIC was established in Abu Dhabi in 1982 and is today one of the leading insurers in the emirate. In addition to its headquarters in Abu Dhabi, the insurer also has an office in Dubai, from which it writes international reinsurance business primarily in African and Asian markets. In recent years, EIC has generated 80%-85% of its total GWP in the UAE property/casualty sector, and 15%-20% through its international division in Dubai.

In 2020, EIC's GWP declined 9.4% to UAE dirham (AED) 1.04 billion from AED1.15 billion in 2019. The decline was mainly due to the impact of COVID-19 on its personal lines motor portfolio, which contracted during the peak of the lockdown period in second-quarter 2020. Due to continuous pricing pressure in the UAE motor insurance market and discontinuation of international reinsurance treaty business, we anticipate that EIC's GWP will decline 5% in 2021 and then expand 0%-5% in 2022. For first-half 2021, gross premiums remained flat compared with the same period in 2020, while net premiums earned declined about 17% due to changes in business mix.

EIC has continued to report solid underwriting results in recent years. Its net combined ratio declined to 88.3% last year compared with 92.4% in 2019. For first-half 2021, underwriting performance remained under pressure due to the highly competitive pricing environment in the UAE insurance market. We expect EIC to maintain a combined ratio of about 90% per year in 2021 and 2022, as management maintains its conservative underwriting approach. On the investment side, EIC suffered investment losses in first-half 2020, due to the decline in equity markets. However, these losses were largely recovered during second-half 2020 and the company reported an investment income of AED52 million (2019: AED72 million). Better investment performance in first-half 2021 mitigated relatively weaker underwriting performance to ensure a net income of AED38.9 million (first-half 2020: AED53.3 million).

Chart 1

Combined Ratios Of Selected Listed Insurers In The UAE In 2018-2020



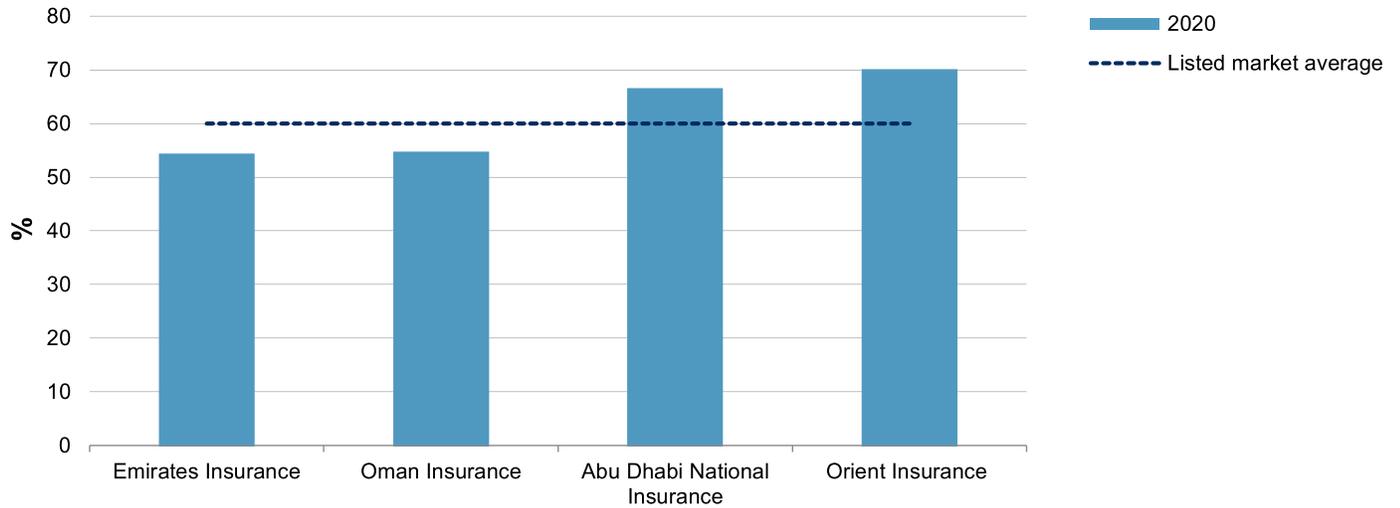
Source: S&P Global Ratings.

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EIC ceded about 54% of its GWP to highly rated reinsurers in 2020, compared with about 49% in 2019. The increase in reinsurance utilization was mainly due to a rise in GWP from some highly reinsured lines such as fire and general accident. Although EIC's reinsurance utilization is relatively high compared to global standards, it is not unusual for insurers in the UAE. This typically helps companies to write profitable, large-scale business in return for lucrative inward reinsurance commissions, but it also reflects some dependence on reinsurers to offer capacity for large risks. We expect EIC's reinsurance utilization to slightly increase in 2021-2022 due to the change in business mix.

Chart 2

Reinsurance Utilization Of Selected Listed Insurers In The UAE In 2020



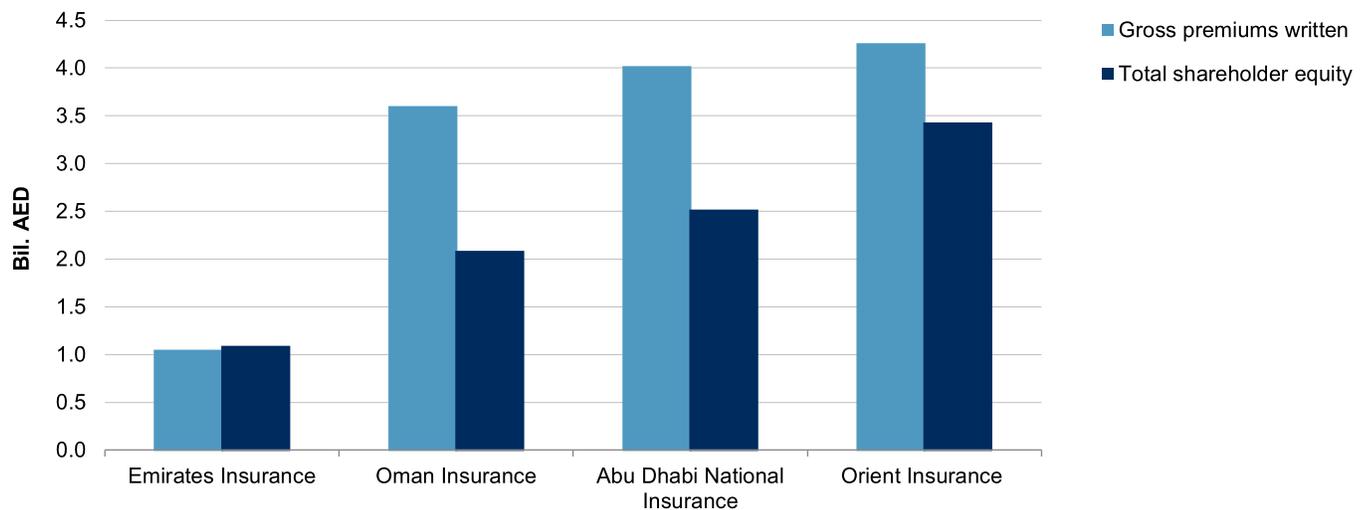
Source: S&P Global Ratings.

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Despite its solid operating results, our assessment of EIC's business risk profile is moderated by its relatively small absolute size in terms of GWP compared with some local and regional peers', and significant exposure to the relatively small and highly competitive UAE market.

Chart 3

Size Comparison Of 'A' Or 'A-' Rated UAE Peers In 2020



Source: S&P Global Ratings. AED--United Arab Emirates dirham.

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Financial Risk Profile: Very Strong

EIC's financial risk profile is derived from the company's 'AAA' risk-based capital adequacy and consistent track record of strong and stable earnings. In second-quarter 2020, EIC's management discovered an accounting error in the company's international reinsurance business. This led to an about AED80 million decline in shareholders' equity owing to the restatement of 2019 numbers. Despite the restatement, EIC's capital adequacy remains at our 'AAA' benchmark, reflecting the company's capital strength.

The company's net profit remained broadly stable at AED108 million in 2020 compared with AED113 million in 2019. We anticipate EIC's capital adequacy will remain at the current level and a key rating strength over the next two years, based on projected net profits of about AED90 million-AED100 million in 2021-2022 and a dividend payment of about AED90 million. Based on the robust capital position, we believe that the need for any additional external capital and liquidity over the next two years will be very low.

In 2020, EIC generated about 18% of its total GWP through its international reinsurance division, which mainly writes business from African and Asian markets with low exposure to catastrophe risks. It therefore has limited risk of earnings volatility from large losses, in our view.

At Dec. 31, 2020, about 45% of EIC's total investments were in equities (mainly UAE-listed equities), 35% in fixed-income instruments, 19% in bank deposits and cash, and about 1% in real estate and other investments. Although about half of EIC's investments are placed in equity and real estate, which we consider high-risk assets, we do not

expect that any potential asset price volatility will negatively affect the company's capital adequacy, due to its existing capital buffer.

Other Key Credit Considerations

Governance

The company's management has a track record of implementing and delivering its key targets. We therefore regard the expertise, experience, and stability of the senior management team as beneficial to EIC.

We consider the insurer's enterprise risk management to be appropriate for its current risk exposure. The risk appetite for both its local primary insurance and international reinsurance business is set at relatively conservative levels and we view it unlikely that EIC will experience losses greater than its risk tolerance, given its modest net exposure to catastrophe or other large risks.

We understand that the company has further strengthened its internal controls after it discovered a legacy accounting issue in second-quarter 2020. We view EIC's accounting arrangements as adequate and do not expect any further restatements relating to this issue.

Liquidity

When measured by our model, EIC's liquid assets exceeded stressed liabilities by about 3x in 2020, which we consider exceptional. We do not anticipate any significant change in our assessment of the company's liquidity position over the next two years.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Appendix

Emirates Insurance Co.--Credit Metrics History		
Ratio/Metric	2020	2019
S&P Global Ratings capital adequacy	Excellent	Excellent
Total invested assets (mil. AED)	1,559	1,580
Total shareholder equity (mil. AED)	1,077	1,109
Gross premiums written (mil. AED)	1,040	1,147
Net premiums written (mil. AED)	476	585
Net premium earned (mil. AED)	526	587

Emirates Insurance Co.--Credit Metrics History (cont.)

Ratio/Metric	2020	2019
Reinsurance utilization (%)	54.2	49.0
EBIT	108.3	113.2
Net income (in mil. AED)	108.3	113.2
Return on revenue (%)	18.3	13.6
Return on shareholders' equity (reported) (%)	9.9	10.1
P/C: net combined ratio (%)	88.3	92.4
P/C: net loss ratio (%)	54.3	59.4
Net investment yield (%)	3.2	3.2

AED--United Arab Emirates dirham. P/C--Property/casualty.

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bbb	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bbb	bb+/bb	bb-/b+
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bbb	bbb-/bbb	bb/bb-	b+/b
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of September 28, 2021)*

Operating Company Covered By This Report

Emirates Insurance Co. (PSC)

Financial Strength Rating

Local Currency

A-/Stable/--

Issuer Credit Rating

Local Currency

A-/Stable/--

Domicile

United Arab Emirates

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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