S&P Global Ratings

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Orient Insurance P.J.S.C.

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SACP* Assessments				SACP*		Support		Ratings
Anchor	a-	+ Modifiers	1	= a		+ 0		= Financial Strength Rating
Business Risk		ERM and Management	0	Liquidity	0	Group Support	0	A/Stable/--
Satisfactory								
Financial Risk		Holistic Analysis	1	Sovereign Risk	0	Gov't Support	0	
Strong								

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Rationale

Business Risk Profile : Satisfactory

- Second-largest insurer in the United Arab Emirates (UAE) by 2015 gross written premium (GWP), with a consistent and stable track record of above-average, market-leading operating performance.
- High user of reinsurance, ceding about 69% of premiums in 2015. This increases counterparty dependence and caps our assessment of Orient's business risk profile at satisfactory.
- Intermediate industry and country risk assessment due to concentration in the UAE property/casualty (P/C) insurance sector, with some small international operations.

Financial Risk Profile : Strong

- Extremely strong risk-based capital adequacy in excess of our 'AAA' requirements, with good quality of capital.
- Investment portfolio of cash and short-term deposits at securely-rated banks, as well as significant equity exposure, in particular to one local bank. However, this is offset by the strength of capital.
- Adequate financial flexibility, reflecting our opinion of Orient's ability to meet any potential additional capital requirements, supported by relatively modest needs for funding.

Other Factors

- We consider enterprise risk management (ERM), management and governance, and liquidity as neutral to the rating and supportive of Orient's operations.
- We continue to view Orient as financially and operationally independent from its 100%-owner, Al Futtaim Group (AF).
- We revise the 'a-' anchor upward by one notch following our holistic analysis, reflecting Orient's consistent and material outperformance within its chosen markets and relative to its peers.

Outlook : Stable

The stable outlook on UAE insurer Orient Insurance P.J.S.C. (Orient) reflects S&P Global Ratings' expectation that Orient will retain its position as a top-tier insurer with above-market-average profitability in the UAE and will maintain its extremely strong capital adequacy. We will continue to qualify and view Orient as an insulated subsidiary of AF.

Downside scenario

We could lower the ratings on Orient if:

- We see long-term, fundamental, and prolonged weakening in the resilience of the company's capital adequacy, such as a major change in its dividend policy, a change in investment strategy, or a material deterioration in its outperformance of the market as a result of rapid business growth; or
- Orient's financial strength or autonomy from its parent was compromised to the extent that we no longer considered it an insulated subsidiary of AF.

Upside scenario

We are unlikely to raise the ratings on Orient over the next three years because the insurer relies heavily on reinsurance and has a relatively concentrated geographic focus.

Base-Case Scenario

Macroeconomic Assumptions

- The nominal premium growth rate for the P/C sector in the UAE will be about 10% per year.
- The real GDP growth rate will be around 3.5% in 2016-2017.
- For detailed macroeconomic forecasts, see "United Arab Emirates Property/Casualty Insurance Sector Carries An Intermediate Industry And Country Risk Assessment," published Feb. 17, 2016, on RatingsDirect.

Company-Specific Assumptions

- Overall GWP will grow by around 20% in 2016, supported by strong contributions from the life and medical portfolio, and this growth will moderate to about 15% in 2017-2018.
- Combined (loss and expense) ratios will remain below 80% over the next two years.
- Net profits of at least UAE dirham (AED) 200 million, supporting Orient's extremely strong capital adequacy and an annual dividend payment to AF.

Key Metrics

(Mil. AED)	2017f	2016e	2015	2014	2013	2012	2011
Gross premiums written	3,220.5	2,800.4	2,333.7	1,802.3	1,596.6	1,426.2	1,265.2
Change in gross premiums written (%)	15.0	20.0	29.5	12.9	11.9	12.7	12.1
Net income (attributable to all shareholders)	>200.0	>200.0	272.0	252.1	240.0	219.5	204.2
Return on shareholders' equity (%)	>10.0	>10.0	11.0	12.8	16.6	19.6	22.2
Net combined ratio (%)	<80.0	<80.0	72.4	66.5	67.0	63.3	63.8

AED--UAE dirham. E--Expected. F--Forecast.

Company Profile: Top-Tier Composite Insurer In The UAE

Orient is a UAE-based composite insurer. In 2015, it wrote gross premiums of AED2.3 billion, making it the second-largest insurer in the UAE. Although Orient is listed on the Dubai Financial Market, it is a wholly-owned subsidiary of AF, a private family group based in the UAE. Orient itself has four subsidiaries that conduct non-life insurance in Turkey, Egypt, and Sri Lanka, and a composite business in Syria. It also has two branches in Oman and one in Bahrain.

Business Risk Profile : Satisfactory

Our assessment of Orient's business risk profile reflects a strong competitive position gained through its leadership position in the UAE market, its superior and consistent track record of outperforming peers, and its ability to exploit its group relationship to expand its distribution network. This is balanced by our intermediate assessment of insurance industry and country risk for the UAE market, from which Orient generated 86% of premiums in 2015. Orient is a high user of reinsurance, ceding 69% of premiums in 2015, and this caps its business risk profile at satisfactory.

Insurance industry and country risk: Highly competitive market, with relatively weak, but improving, regulatory oversight

Orient faces intermediate industry and country risk exposure, in our opinion, based on the company's concentration in the UAE. The assessment reflects our view of low insurance product risk, owing to very limited catastrophe and long-tail risk exposures, and intermediate country risk. Returns on capital have generally been moderate and sustainable in the region's insurance industry.

The UAE insurance sector is overpopulated by market players, leading to fierce price competition on key volume lines of business such as medical and motor. However, we consider that the UAE market still offers good premium growth prospects and remains fundamentally profitable for companies that have sufficient business volumes to dilute costs.

We view the introduction of new regulations by the Insurance Authority (IA) as a step toward strengthening the industry's regulatory framework, which we currently assess as weak. Orient is increasingly diversifying its premium base, although this is unlikely to be material enough to change its industry and country risk assessment over the outlook horizon of the next two years.

Industry And Country Risk		
Insurance sector	**IICRA**	**Business mix***
UAE P/C	Intermediate risk	86
Other P/C	High risk	14

*Based on gross premiums written. P/C--property/casualty

Competitive position: Second-largest insurer in the UAE, with a stable and predictable operating performance

Orient is the second-largest insurer in the UAE in terms of 2015 GWP, having written about AED2.3 billion in the year. It is also the market leader in terms of operating performance and profitability. About 90% of the premiums were sourced from non-life operations in 2015, while the remaining 10% came from life insurance (mostly short-term).

In 2015, the company's premium base grew by about 29%, and this significant growth was supported by strong contributions from the life and medical portfolios. Orient is one of the nine preferred insurers under the Dubai Health Authority (DHA) scheme, and 2015 saw a substantial amount of new business written under this scheme. We expect to see another sizable contribution from this scheme in 2016, evident from a 24% growth rate in the first quarter of the year. In our opinion, the new products written under the DHA scheme and the lack of performance record could pose a risk to Orient's operating performance. However, Orient's partnerships with international reinsurers mitigate this risk.

Our base-case scenario assumes that overall GWP will grow by around 20% in 2016, supported by strong contributions from the life and medical portfolios. We expect this growth to moderate to about 15% in 2017-2018, as the DHA scheme's third phase concludes in 2016. Our view of Orient's strong competitive position is supported by its consistent and pronounced operating outperformance relative to local competitors, despite increasing competitive pressures in the market.

Orient benefits from a business model that relies on high levels of reinsurance, which increases its capacity to write business, particularly large domestic commercial and industrial risks. This also allows Orient to build strong and longstanding relationships with a number of highly rated global reinsurers and brokers. In turn, these ties enable Orient to enhance its earnings through inward reinsurance commissions. We expect that Orient will continue to use this model to maintain its high profile in the UAE and generate above-market-average growth and attractive profits.

This model, however, increases the possibility of Orient becoming dependent on reinsurance relationships and therefore exposed to heightened counterparty credit risk. Moreover, our view of Orient's competitive position is constrained by its limited geographic diversity and concentration of risk exposures in a relatively small and highly competitive market.

Orient is slowly expanding its operations in the Arab region and beyond, helped by the international expansion of AF. Its strategy also includes expanding the life portfolio through tie-ups with leading international life insurers, expanding regionally by opening more branches, introducing new distribution channels (bancassurance deals), and potentially entering the takaful sector. However, we do not see these plans as increasing Orient's competitive advantage until the operations can positively and materially diversify its earnings.

Table 2

Orient Insurance P.J.S.C. Competitive Position					
	--Year-ended Dec. 31--				
(Mil. AED)	2015	2014	2013	2012	2011
Gross premiums written	2,333.7	1,802.3	1,596.6	1,426.2	1,265.2
Change in gross premiums written (%)	29.5	12.9	11.9	12.7	12.1
Net premiums written	733.6	543.6	481.5	406.2	335.5
Change in net premiums written (%)	34.9	12.9	18.6	21.1	12.6
Reinsurance utilization	68.6	69.8	69.8	71.5	73.5

AED--UAE dirham.

Financial Risk Profile : Strong

Our view of Orient's financial risk profile is based on its very strong capital and earnings, intermediate risk position, and adequate financial flexibility.

Capital and earnings: We forecast that capital adequacy will remain extremely strong through to 2018

We anticipate that Orient's strong prospective earnings will allow it to maintain extremely strong capital adequacy over the next two years and support business expansion by building its capital base, which is the largest of the 29 listed UAE insurers. By our risk-based capital model, Orient's largest exposure is market risk. This is the result of the increasing value of equity investments on Orient's balance sheet, driven by concentration in one local bank. However, Orient has sufficient excess capital at the 'AAA' level to absorb any possible losses arising from this concentration.

Our base-case scenario assumes that Orient will post net combined ratios below 80% and net profits better than AED200 million per year, supporting an annual dividend payment to AF. This compares with a track record of posting net combined ratios in excess of 70% only three times over the past 15 years. Increasing competition in the market will make the achievement of such ratios more difficult for Orient, particularly with increased contributions from the fiercely competitive medical portfolio.

Orient's reinsurance utilization is around 70%, although we expect this to drop to the mid-60s over the next two years. This is because the medical business written under the DHA scheme requires entities to retain at least 40% of the premiums. Orient is supported by stable relationships with reinsurers, all of which are highly rated by S&P Global Ratings, and we expect these relationships to continue in future. The nature of many of the underwriting risks requires active participation by those reinsurers. Most risks are ceded on a profit commission basis, and the reinsurers have enjoyed long-term healthy returns from these programs. Nevertheless, Orient's earnings are vulnerable to extreme losses, which would erode its profit commission receipts and loss ratios.

In our opinion, Orient is adequately reserved and has no reserving issues. The company consults with external actuaries, and the latest actuarial report undertaken at end-September 2015 indicates that Orient is over-reserved by about AED5 million. Moreover, as a result of the unearned premium reserve law under new UAE regulations, Orient expects that moving to the 1/365th method of calculating the earned premium reserve will have no impact on its reserves.

Table 3

Orient Insurance P.J.S.C. Capitalization Statistics

	--Year-ended Dec. 31--				
(Mil. AED)	**2015**	**2014**	**2013**	**2012**	**2011**
Common shareholders' equity	2,684.4	2,266.0	1,669.1	1,224.3	1,019.3
Change in common shareholders' equity (%)	18.5	35.8	36.3	20.1	24.6

AED--UAE dirham.

Table 4

Orient Insurance P.J.S.C. Earnings Statistics

	--Year-ended Dec. 31--				
(Mil. AED)	**2015**	**2014**	**2013**	**2012**	**2011**
Total revenue	740.9	599.8	541.8	463.4	385.1
EBIT adjusted	278.7	261.3	235.9	221.1	182.5
Net income (attributable to all shareholders)	272.0	252.1	240.0	219.5	204.2
Return on revenue (%)	37.6	43.6	43.5	47.7	47.4
Return on shareholders' equity (reported) (%)	11.0	12.8	16.6	19.6	22.2
Net expense ratio (%)	24.7	19.1	16.3	14.8	16.3
Net loss ratio (%)	47.8	47.4	50.7	48.5	47.5
Net combined ratio (%)	72.4	66.5	67.0	63.3	63.8

AED--UAE dirham.

Risk position: Intermediate, with some concentration in high-risk assets

Orient's 2015 investment portfolio includes 38% cash and short-term investments and 52% equities. The rest is invested in bonds, real estate, and other securities. Although the equities are concentrated in the financial services industry, the amount of cash deposits held in diverse securely rated banks eases our concerns in this regard. Moreover, we expect this investment concentration to reduce as new IA regulations come into force in January 2017, which will see Orient divest some of its high-risk investments. Orient maintains a focus on the financial sector, but with a commitment to maintain a high level of ready liquidity. We do not expect to see Orient introducing new investment risk to the balance sheet over the outlook horizon.

Table 5

Orient Insurance P.J.S.C. Risk Position

	--Year-ended Dec. 31--				
(Mil. AED)	**2015**	**2014**	**2013**	**2012**	**2011**
Total invested assets	3,482.2	2,956.0	2,225.6	1,705.6	1,448.3
Net investment income	114.3	103.4	95.6	80.8	64.1
Net investment yield (%)	3.6	4.0	4.9	5.1	4.7
Portfolio composition (% of general account invested assets)					
Cash and short-term investments (%)	38.4	43.6	47.4	51.1	80.1
Bonds (%)	4.3	4.4	4.1	4.9	4.8
Equity investments (%)	52.4	45.7	41.1	34.7	2.9

Table 5

Orient Insurance P.J.S.C. Risk Position (cont.)					
	--Year-ended Dec. 31--				
(Mil. AED)	**2015**	**2014**	**2013**	**2012**	**2011**
Real estate (%)	2.9	3.6	4.9	6.6	8.0
Other investments (%)	2.0	2.7	2.6	2.7	4.1

AED--UAE dirham.

Financial flexibility: Adequate and neutral for the rating

Orient has strong internal capital generation capabilities and support, if required, from a large corporate parent. Like many other players in the Gulf Cooperation Council, it does not have a track record of using external capital sources and this constrains our assessment to some extent. However, we believe the company has relatively modest needs for external funding.

Other Factors

Enterprise risk management: Adequate relative to its needs

We view Orient's ERM as adequate and therefore neutral to the ratings. The group has risk procedures and tools in place that have helped it to outperform its peers in the UAE and regionally. It uses comprehensive risk controls and surveillance that allow monitoring of risks up to the board level. The systems and processes in place will enable the company to continue enhancing its earnings and risk-return profile. The ERM at Orient, in our view, is of low importance and this is mainly due to the relatively basic risks it writes, predominantly single-market focus, and substantial amounts of capital supporting business expansion.

Management and governance: Satisfactory, with an experienced and stable management team

We consider that management has demonstrated an ability to formulate a clear strategy for the company and has developed a successful track record of implementing and delivering its key targets. In our view, the expertise and stability of the management team supports strategic execution, and Orient has a proven ability to deliver stable and superior operating performance relative to its peers. Mr. Omer Elamin, Orient's group president, has been with the company for over 34 years. The company has a track record of comprehensive strategic planning, strong execution, and generally conservative financial management.

Liquidity: Exceptional; liquidity of balance sheet supports potential requirements

We regard Orient's liquidity as exceptional, owing to the strength of the liquidity sources available to it. As at year-end 2015, its liquid assets covered 5x the net technical reserves.

Group support: Considered independent of owner, Al Futtaim Group

Orient is, and will continue to be, structurally and operationally insulated from its 100% corporate owner, AF. Orient's insulated status is based on its superior stand-alone financial strength relative to that of AF, protective regulation of capital, and relative operational independence. As a result, we analyze Orient based on its stand-alone credit profile and our holistic analysis, without the ratings being influenced by the relative financial strength of the corporate parent. In our opinion, Orient's financial performance and funding prospects remain highly independent from the group, with only 9% of Orient's gross premiums relating to AF in 2015.

The stability of its earnings and the consistency of its dividend policy give Orient superior internal capital-generation capability, in our opinion. Although we do not expect it to happen, were Orient to be separated from AF, we believe there would be minimal impact on Orient's operational continuity and policyholder service. Orient is also subject to IA and Capital Markets Authority regulations in the UAE, and this supports our view of insulation from its parent. AF is a large UAE-based trading group, and Orient's insurance business is fully complementary to AF, but not integral to its strategy. We therefore consider Orient as moderately strategically important to AF.

Holistic analysis

We factor in one notch of uplift into the ratings from the anchor based on our holistic analysis. This reflects our view of Orient's exceptional track record of very stable and well-above-average operating performance relative to its peers. In addition, although Orient's high reinsurance utilization constrains its business risk profile, we regard Orient's strategy of allowing reinsurers to access large-scale profitable business while receiving healthy inward reinsurance commissions, as a positive factor for Orient's earnings and therefore its financial risk profile.

Accounting Considerations

Orient prepares its consolidated financial statements under International Financial Reporting Standards and applicable requirements of UAE laws. We view accounting as broadly transparent and reflective of the company's economic substance. We have not made any significant adjustments to the reported figures in our analysis.

Related Criteria And Research

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- United Arab Emirates Property/Casualty Insurance Sector Carries An Intermediate Industry And Country Risk Assessment, Feb. 17, 2016

Ratings Detail (As Of June 21, 2016)	
Operating Company Covered By This Report	
Orient Insurance P.J.S.C.	
Financial Strength Rating	
Local Currency	A/Stable/--
Counterparty Credit Rating	
Local Currency	A/Stable/--

Ratings Detail (As Of June 21, 2016) (cont.)	
Domicile	United Arab Emirates

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's 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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