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Asia Insurance Co. Ltd.

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Asia Insurance Co. Ltd.

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

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

Major Rating Factors

Strengths

- Strong competitive position in the Hong Kong property and casualty insurance market where it leverages strong market knowledge and long-term broker, agent, and client relationships.
- Market leading underwriting performance through active risk selection.
- Very strong capital and earnings position with good profit generation, offset to a degree by the moderate size of its capital.

Weaknesses

- The company's exposure to inward reinsurance business increases the potential for volatility in underwriting performance.
- Some expense ratio strain as the midsize insurer raises spending on regulatory, accounting, and operational initiatives.

Rationale

The 'A' insurer financial strength and issuer credit ratings on Asia Insurance Co. Ltd. reflect its solid stand-alone business and financial characteristics. We consider the insurer to be a material and integral subsidiary of Hong Kong-listed investment holding company Asia Financial Holdings Ltd.

Asia Insurance's competitive advantage derives from strong local market knowledge and underwriting experience in the Hong Kong property and casualty sector. This contributes to sustained market-leading earnings performance and supports very strong capital metrics. These strengths are offset to a degree by the midsize scale of its operations and exposure to inward reinsurance treaties, which carry higher risk and volatility in our view.

Outlook

The stable outlook on Asia Insurance reflects our view that the insurer will maintain its strong competitive position, very strong capital and earnings, and modest exposure to credit and market risk over the next two years.

Downside scenario

We may lower the rating if Asia Insurance's competitive position weakens to an adequate level. This could materialize if we no longer expect the insurer's operating performance to remain consistently stronger than the industry average in Hong Kong over the next two years.

Upside scenario

While less likely over the next two years, we may upgrade Asia Insurance if the insurer's strong business risk profile solidifies further. This could happen if the quality and earnings of Asia Insurance's inward reinsurance business significantly improves.

Base-Case Scenario

Key Metrics

(Mil. HK\$)	2015A	2016A	2017A	6/2018A	2018F*	2019F*	2020F*
Gross Written Premiums	1,176	1,292	1,299	769	1,312	1,325	1,338
Net income (attributable to all shareholders)	190	240	338	89	173	230	240
Return on equity (%)	6.6	8.4	10.6	5.2	5.1	6.6	6.8
S&P capital adequacy	Ext' Strong						
Net Investment Yield (%)	2.2	2.0	2.1	NA	1.9	2.0	2.2
Net combined ratio (%)	87	81	97	NA	97	91	91
Return on revenue (%)	21	28	19	NA	19	24	25
Total Reported Capital	2,762	2,972	3,401	3,423	3,422	3,499	3,586

*Forecast data represent S&P Global Ratings base case assumptions

Business Risk Profile

We expect that Asia Insurance will maintain its strong competitive position as a midsize participant in the fragmented Hong Kong property and casualty insurance market. The insurer is ranked 10th in the market by gross premiums (2017) with 2.8% market share. It focuses on the more stable and profitable small and midsize enterprises sector rather than on large corporates. Asia Insurance has the advantage of good market knowledge and close relationships with brokers and agents, which assists risk selection and retention of good business.

We see Asia Insurance as nimble and attune to changing market conditions and dynamics. It operates under prudent underwriting principles, and consistently outperforms the industry in underwriting performance. This led the insurer to exit some business in lines that face overcapacity or performance issues, such as accident and health, and to reprice Macao risks post recent typhoon events. Modest premium growth has returned in 2018 through new motor schemes

and rate increases. We see emerging opportunity through Asia Insurance's accreditation as an insurer for the new Hong Kong Macao bridge, and in the longer term, potential involvement in the Greater Bay Area and Belt and Road initiatives.

We assess Asia Insurance's operating performance as superior to domestic peers, particularly in the motor and employee compensation lines, which have been loss making for the rest of the industry but consistently profitable for Asia Insurance. Net profit after tax for 2017 was a solid HK\$338.3 million, boosted by favorable investment gains, while underwriting performance was adversely impacted by local typhoon and U.S. hurricane losses. Exposure to Typhoon Hato in 2017 was well covered by reinsurance resulting in a net loss of about HK\$73.7 million, subject to reserve adjustment. Exposure to Typhoon Mangkhut in 2018 appears significantly lower. Results for 2018 are likely to be down on 2017 with lower investment returns and higher spending on regulatory, accounting, and risk management initiatives, offset to a degree by slightly improved claims performance.

In our view, Asia Insurance's inward reinsurance book, which is about one-third of its portfolio, exposes the insurer to potential earnings volatility, given the exposure to natural disasters throughout the world. While inward reinsurance provides some business and geographic diversity to the domestic portfolio, we believe the risk selection capabilities Asia Insurance enjoys in its home market would not fully translate to the global market.

Financial Risk Profile

We expect Asia Insurance to maintain very strong capital and earnings over the next two years given the insurer's good profitability, stable dividend flows, and supportive parentage, but offset to a degree by its moderate size of capital (HK\$3,401 million/US\$435 million at Dec. 31, 2017).

Asia Insurance's risk-adjusted capital will remain at the extremely strong level under our capital model forecasts. However, we consider the insurer to be more vulnerable to single-event losses than assumed in the capital model, given its moderate capital size, and to some degree its exposure to equity investment assets and inward reinsurance risks. These risks modify downward our view of the insurer's financial risk profile.

We view Asia Insurance's credit and market risks as modest, with exposure to equity market investments at about one-third of the portfolio, some issuer and sector concentrations, and limited exposure to foreign exchange risk. Despite having capacity from solid capital metrics, we expect the insurer to maintain its moderate exposure to equity investments and other risk assets.

Our assessment of Asia Insurance's financial flexibility reflects the company's fair access to external capital and liquidity. We believe the company can obtain capital and funding, if necessary, from its listed parent, which holds a diverse mix of investments.

Other Assessments

We believe Asia Insurance's inward reinsurance business could lead to higher volatility in its earnings and constrain its credit profile, despite maintaining sound outward reinsurance protection. In our view, the underlying risk of the

overseas reinsurance business is higher; while Asia Insurance has good relationships with ceding companies, its market knowledge in this regard is not as strong as in its domestic business. As a result we assign an anchor of 'a', which is the lower of the two possible outcomes that could result from a strong business risk profile and very strong financial risk profile.

We consider Asia Insurance's enterprise risk management (ERM) and management and governance practices as neutral factors for the rating and adequate relative to its simple risk profile. The company exercises sound risk control processes, including regular risk reviews, gap analysis, risk culture surveys, and heat map analysis. It has boosted its risk reporting and risk register practices, which follow both local and key international framework guidelines.

The insurer's risk awareness, oversight, and staffing has improved in recent years. However, we consider that the scale of the insurer still restricts resourcing toward sophisticated catastrophe risk controls and costly risk modelling tools. In addition, while normal for an insurer of this profile, there is some reliance on external consultants or providers around management of emerging risks such as cyber security.

Asia Insurance's significant holdings in liquid instruments (such as cash, term deposits, and listed securities) support its liquidity. The insurer also has ample net cash flows from operating activities to meet immediate payment requirements and demonstrated support from its reinsurance panel. The termination of the sale of its partial interest in Hong Kong Life Insurance Ltd. does not pose a capital or liquidity strain, and indeed maintains flexibility for ongoing income flows or future divestment return.

Support

Group support

We consider Asia Insurance as a core subsidiary of Hong Kong-listed investment holding company Asia Financial Holdings Ltd. (not rated). Asia Insurance is an integral and material subsidiary representing about 43% of Asia Financial Holdings' total equity and 60% of its total assets. The balance of the group is deemed neutral to the financial strength of Asia Insurance. As a result, we anchor the group credit profile the same as the stand-alone credit profile of Asia Insurance.

Rating Score Snapshot

Rating Score Snapshot--Asia Insurance Group	
Financial Strength Rating	A/Stable
Anchor	a
Business Risk Profile	Strong
IICRA*	Low Risk
Competitive Position	Strong
Financial Risk Profile	Very Strong
Capital & Earnings	Very Strong
Risk Position	Intermediate Risk
Financial Flexibility	Adequate

Rating Score Snapshot--Asia Insurance Group (cont.)

Modifiers	0
ERM and Management	0
Enterprise Risk Management	Adequate
Management & Governance	Satisfactory
Holistic Analysis	0
Liquidity	Strong
Support	0
Group Support	0
Government Support	0

*Insurance Industry And Country Risk Assessment. NB: Support does not consider Ratings Above Sovereign criteria.

Related Criteria

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- 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

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Ratings Detail (As Of November 9, 2018)**Operating Company Covered By This Report****Asia Insurance Co. Ltd.**

Financial Strength Rating

Local Currency A/Stable/--

Issuer Credit Rating

Local Currency A/Stable/--

Domicile

Hong Kong

*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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