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Asia Insurance Co. Ltd.

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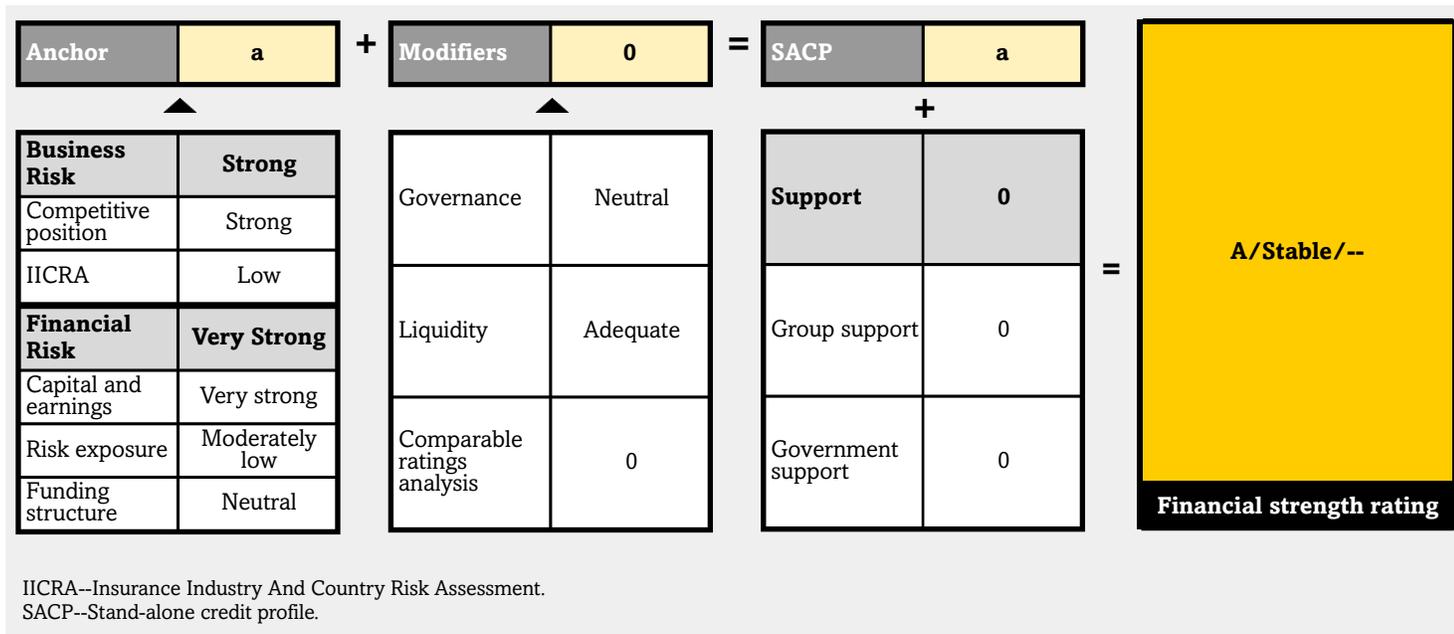
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Asia Insurance Co. Ltd.



Credit Highlights

| Overview | |
|---|--|
| Key strengths | Key risks |
| Very strong capital position with good underwriting profit generation. | Heightened sensitivity to capital market swings due to relatively high allocation to equity investments. |
| Consistent outperformer in underwriting, compared with local peers, with active review of retained exposures. | |

Strong local market knowledge, active risk selection, and sound underwriting record underpin Asia Insurance's competitive advantage. The insurer's long operating history with a well-established brand in Hong Kong, and its close relationships with intermediaries, supports quality new business acquisitions and customer retention. We believe Asia Insurance will maintain its sound underwriting performance, which consistently outperforms the industry average, over the next two years.

Asia Insurance has a very strong capital position relative to its risk profile, although with a narrowed buffer. The insurer's earnings are exposed to volatility through its inward reinsurance operations and equity investments. The insurer's ongoing business expansion also consumes more capital. Asia Insurance's moderate capital size of less than US\$1 billion somewhat tempers its excellent capital adequacy, given insurers of that size are more vulnerable to large shocks.

Asia Insurance is more susceptible to capital market volatility, compared with its domestic property and casualty (P/C) peers. The insurer benefits from leveraging its parent group's expertise in asset management, particularly equity investment. We believe Asia Insurance will closely monitor its invested asset allocation, at the backdrop of ongoing regulatory capital framework development.

Outlook: Stable

The stable outlook on Asia Insurance reflects our view that the insurer will maintain its strong competitive position with sound underwriting performance in Hong Kong's P/C insurance market over the next two years. We also expect Asia Insurance to maintain its very strong capital position while managing its exposure to credit and market risk.

Downside scenario

We may lower the rating if Asia Insurance's competitive position weakens. This could happen if we no longer expect the insurer's underwriting performance to be consistently stronger than the industry average in Hong Kong over the next two years.

We may also lower the rating if Asia Insurance's capitalization deteriorates significantly over the projected period, possibly stemming from significant increase in its investment risk appetite or unexpected large underwriting losses.

Upside scenario

While unlikely over the next two years, we may upgrade Asia Insurance if the insurer further solidifies its competitive position. This could happen if the insurer significantly strengthens its domestic presence whilst maintaining sound profitability.

Key Assumptions

- Hong Kong's real GDP to grow 6.5% in 2021, 2.5% in 2022, and 2.0 in 2023, recovering from the COVID-19 shock.
- Hong Kong's average inflation to be 1.3% in 2021, 1.8% in 2022 and 1.9% in 2023, as measured by the consumer price index.

Asia Insurance Co. Ltd.--Key Metrics

| (Mil. HK\$) | --Fiscal year ended-- | | | | | | |
|---|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2017a | 2018a | 2019a | 2020a | 2021f* | 2022f* | 2023f* |
| Gross written premiums | 1,299.0 | 1,487.8 | 1,706.7 | 1,753.2 | 1900-2100 | 2000-2200 | 2100 - 2300 |
| Net income (attributable to all shareholders) | 347.2 | 261.4 | 192.6 | 196.6 | 200-230 | 200-230 | 200-230 |
| Return on equity (%) | 10.9 | 7.6 | 5.6 | 5.6 | 5.0-6.0 | 5.0-6.0 | 5.0-6.0 |
| Net investment yield (%) | 3.2 | 2.5 | 2.3 | 1.8 | 2.0-2.5 | 2.0-2.5 | 2.0-2.5 |
| Net combined ratio (%) | 97.0 | 89.3 | 90.6 | 90.9 | 90-93 | 90-93 | 90-93 |
| Return on revenue (%) | 19.8 | 30.9 | 18.7 | 16.8 | 15.0-18.0 | 15.0-18.0 | 15.0-18.0 |
| S&P capital adequacy | Very strong | Very strong | Very strong | Very strong | Very strong | Very strong | Very strong |

*Forecast data represent S&P Global Ratings' base-case assumptions. Capital adequacy based on capital and earnings assessment. a--Actual. f--Forecast.

Business Risk Profile: Strong

Asia Insurance's robust competitive position is supported by its record of sound underwriting results as a mid-tier participant in Hong Kong's fragmented P/C insurance market. The insurer's strong local market know-how and close relationships with local intermediaries facilitate active risk selection. Asia Insurance has a long operating history in the market with a well-established brand name. The insurer ranked 8th by gross written premium with 2.8% market share in 2020. Asia Insurance generates most of its premium from insurance coverage in Hong Kong. The growing portion of inward reinsurance business that covers P/C risks from mainland China and international markets will likely have limited impact on its aggregated insurance industry and country risk profile over the next two years. We view the insurer as having low industry and country risk.

Favorable premium rates in the property business line and economic recovery supports Asia Insurance's topline growth in 2021. We estimate the insurer will grow by 10%-15% in 2021, largely driven by property and general liability lines. Along with our expectation that the premium rate hike will moderate, we anticipate Asia Insurance' premium growth to be 5%-8% per annum in 2022-2023. Evolving synergies between Asia Insurance and Avo Insurance Co. Ltd. will likely prompt new business opportunities for personal and small and midsized enterprise (SME) related products. Avo Insurance is an online P/C insurer in Hong Kong, and 49.3% owned by Asia Insurance.

Asia Insurance will likely sustain its sound underwriting performance relative to peers over the next two years. The insurer's continuous effort in portfolio optimization will also likely support such ground. The insurer's combined ratio stood at 90.9% as of Dec. 31, 2020, superior to the industry of 93.9%. A combined ratio below 100% indicates underwriting profits. Asia Insurance's inward reinsurance business, which makes up approximately one-third of the insurer's total premiums, could lead to increased volatility in underwriting results. We anticipate Asia Insurance will leverage reinsurance arrangements to assist risk retention, particularly for catastrophe-related exposures.

Financial Risk Profile: Very Strong

Asia Insurance will maintain its capital position at a very strong level, in our view, backed by strong underwriting profits, over the next two years. However, its capital buffer will likely narrow, both from potential volatility from its inward reinsurance portfolio and equity investments, and capital consumption from the insurer's ongoing business expansion. As of June 30, 2021, the insurer reported a solid net profit of HK\$170 million. We believe Asia Insurance will monitor its investment allocation amid ongoing development of the regulatory framework in Hong Kong, aiming to maintain a healthy regulatory solvency level. The insurer has been maintaining its solvency ratio sufficiently above the minimum regulatory requirement.

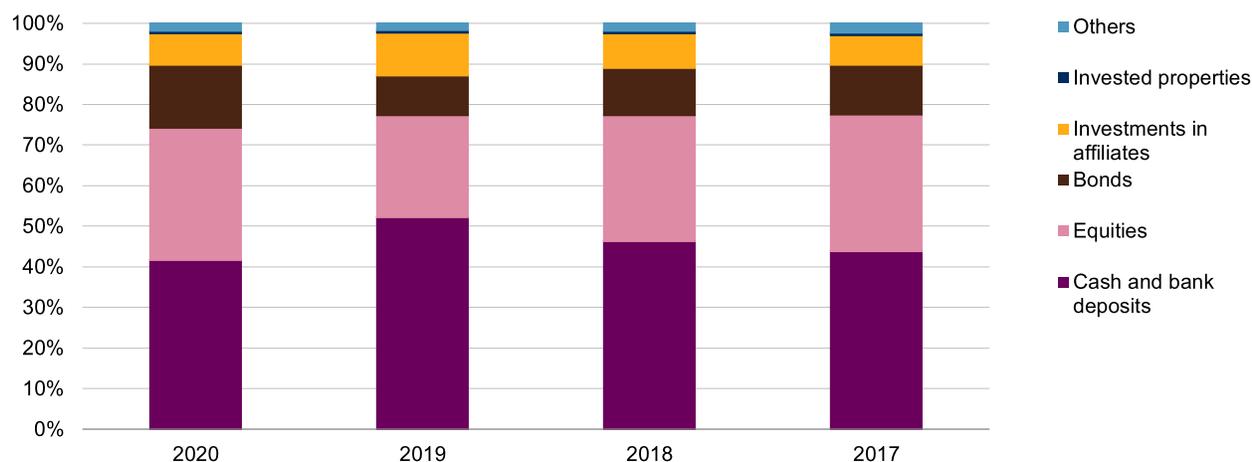
We consider insurers of a similar size to Asia Insurance as being more vulnerable to large single-event losses than assumed under our capital model. Asia Insurance's moderate capital size at under US\$1.0 billion, somewhat tempers its excellent capital adequacy. We therefore moderate our assessment of capital and earnings to very strong. Asia Insurance is also exposed to catastrophe risk, particularly through its property damage business line. We anticipate that management will continue to proactively review its reinsurance arrangements to mitigate catastrophe-related risk

exposures and financial volatility.

In our view, Asia Insurance is more sensitive to capital market volatility than its domestic P/C peers. The insurer's exposure to high-risk assets, predominately equity investments, accounted for about 33% of its total invested assets as of Dec. 31, 2020, and 56.3% of its shareholders' equity. Asia Insurance leverages the investment expertise of its parent, Asia Financial Holdings. We view this as beneficial to the insurer's management of credit and market risk exposures.

Chart 1

Asia Insurance Will Likely Maintain High Allocation To Equity Investments Invested asset mix



Cash and bank deposits: Cash and bank balances+Pledged deposits. Equities: Available-for-sale securities+Securities measured at fair value through profit or loss. Bonds: Held-to-maturity securities. Investments in affiliates: Interests in joint ventures+Interests in associates (excl. goodwill and loans to associates; note 12). Others: Loans to associates + Mortgage loan receivables. Source: Asia Insurance, Audited financial statement.

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Other Key Credit Considerations

Governance

Asia Insurance's risk culture and governance will likely strengthen over the next two years as the regulatory framework in Hong Kong advances. The insurer has a formal strategic planning process and clear indicators to guide business development. The senior management team's good depth and breadth of insurance expertise in the local market underpin Asia Insurance's ability to execute strategies.

Liquidity

Asia Insurance has adequate liquidity to support its operations. The insurer holds sufficient liquid assets, such as cash, bank deposits, and short-term bonds, accounting for over 40% of its total invested assets.

Group support

We consider Asia Insurance as a core subsidiary of Asia Financial Holdings. Asia Insurance, the primary operating entity of the group, represents about 51% of Asia Financial Holdings' total assets and 33% of the equity. The insurer contributed to about 57% of the group's net profit in 2020. Asia Financial Holdings' other businesses are largely financial investments in areas such as life insurance, healthcare and wellness, and retirement services. In our view, the group credit profile of Asia Financial Holdings mirrors the stand-alone credit profile of Asia Insurance. Asia Financial Holdings reported a net profit of HK\$320 million in the first half of 2021. The parent group has limited debt leverage.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group 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

| Asia Insurance Co. Ltd.--Credit Metrics History | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Ratio/Metric (Mil. HK\$) | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
| S&P Global Ratings capital adequacy | Very strong |
| Total invested assets | 5,805.2 | 5,670.4 | 5,462.1 | 5,476.4 | 4,878.3 | 4,627.4 |
| Total shareholder equity | 3,610.9 | 3,439.0 | 3,459.4 | 3,409.6 | 2,972.2 | 2,762.5 |
| Gross premiums written | 1,753.2 | 1,706.7 | 1,487.8 | 1,299.0 | 1,291.7 | 1,175.9 |
| Net premiums written | 1,118.2 | 1,070.7 | 964.7 | 850.1 | 830.3 | 831.2 |
| Net premiums earned | 1,042.1 | 981.4 | 889.2 | 850.3 | 853.9 | 887.4 |
| Reinsurance utilization (%) | 36.2 | 37.3 | 35.2 | 34.6 | 35.7 | 29.3 |
| EBIT | 202.6 | 218.4 | 297.2 | 381.4 | 273.4 | 209.3 |
| Net income (attributable to all shareholders) | 196.6 | 192.6 | 261.4 | 347.2 | 239.9 | 190.1 |
| Return on revenue (%) | 16.8 | 18.7 | 30.9 | 19.8 | 27.8 | 21.7 |
| Return on shareholders' equity (reported) (%) | 5.6 | 5.6 | 7.6 | 10.9 | 8.4 | 6.6 |
| P/C: net combined ratio (%) | 90.9 | 90.6 | 89.3 | 97.0 | 81.3 | 87.1 |
| P/C: net expense ratio (%) | 42.4 | 41.6 | 42.5 | 41.3 | 38.5 | 33.6 |
| Net investment yield (%) | 1.8 | 2.3 | 2.5 | 3.2 | 2.6 | 2.6 |
| Net investment yield including investment gains/(losses) (%) | 2.0 | 2.5 | 1.4 | 6.6 | 2.6 | 2.4 |

P/C--Property and 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-/bb+ | bb/bb- | b+/b |
| Satisfactory | a | a/a- | a-/bbb+ | bbb+/bbb | bbb/bbb- | bb+/bb | bb-/b+ | b/b- |
| Fair | a- | a-/bbb+ | bbb+/bbb | bbb/bbb- | bbb-/bb+ | bb/bb- | b+/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 December 16, 2021)***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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