Credit Rating Announcement

Ref: IR04315PRS00-1

19th October 2016

First-Time Ratings Assigned to Razi Insurance Company

Capital Intelligence Ratings (CI Ratings or CI), the international credit rating agency, today announced that it has assigned first-time Long- and Short-Term Insurer Financial Strength Ratings (IFSRs) of ‘B+’ and ‘B’, respectively, to Razi Insurance Company, based in Tehran, Iran. The Outlook for the IFSR is ‘Stable’. CI Ratings has also assigned to Razi initial Long- and Short-Term National Scale Ratings of ‘irA’ and 'irA2', respectively, also with a 'Stable' Outlook.

The ratings reflect Razi’s continuously improving competitive position and its low-complexity business model based on appropriate insurance products, good services, and sound market reputation. Razi’s current solvency level of ‘1’ is at the highest regulatory level and is supportive of current business volumes.

In CI’s view, the Iranian insurance industry is still at an underdeveloped stage, characterised by strong competition, unsatisfactory underwriting results, and moderate capitalisation levels, with premium growth often exceeding capital generation capacity. Razi nevertheless seems well-positioned to benefit from increasing insurance penetration and density in Iran as the economy recovers, following the gradual lifting of international sanctions.

The Company may, however, face challenges in generating the capital needed to meet its ambitious growth targets in light of the fierce competition in key business lines. In addition, its ability to raise substantial amounts of capital to support growth is likely to be constrained by the limited capacity and liquidity of the domestic equity market, combined with competing demand for capital resources from other local insurers, banks, and corporates. The possibility of attracting a foreign insurance partner as an investor seems realistic given Razi’s strengths, but may take time to materialize.

As Razi’s insurance portfolio mainly consists of short-tail lines, premium and reserving risk is regarded as relatively low. However, Razi’s core underwriting profitability (including administrative expenses and excluding investment results) is regarded as weak. It is significantly impacted by the domestic competitive environment and the Company’s still relatively small size, which does not yet allow Razi to benefit sufficiently from economies of scale.

A major constraining factor for the ratings is the concentration risk associated with Razi’s investments. This reflects the lack of depth, breadth, and liquidity of local capital markets, as well as the Company’s desire to generate superior returns to compensate for weak underwriting profitability. About 56% of Razi’s investments as of FYE 2016 were short-term time deposits with Iranian banks, the overwhelming majority of which were with one individual bank (Ayandeh Bank, unrated), thus representing a significant sector and single obligor concentration risk. Furthermore, Razi’s investments in real estate (own branches and project developments) were reduced during FYE 2016 through sales of properties, but still represented 34% of the Company’s investments, and are budgeted to rise again. While real estate has traditionally been used as a hedge against inflation and in the past helped to bolster bottom-line profitability, such positive developments should not be taken for granted in an environment of declining inflation. Furthermore, it leaves Razi potentially vulnerable to volatility and liquidity in these markets.

Razi is a privately owned insurance company with premiums of IRR5.781 billion (USD191mn) as of March 20, 2016 (FYE 2016). Established in 2003, it ranked 10th in the Iranian insurance market with a market share of about 2.2% as of FYE 2015, and about 4% as of September 2016, insuring 2.5 million people.

CREDIT RATINGS

Insurer Financial Strength			National Scale (Iran)		
LT	**ST**	**Outlook**	**LT**	**ST**	**Outlook**
B+	**B**	**Stable**	**irA**	**irA2**	**Stable**

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The information sources used to prepare the credit ratings are the rated entity and public information. CI had access to the published financial statements of the issuer for the purpose of the rating and had access to one or more of the following: the internal accounts; management; and other relevant internal documents of the issuer. CI considers the quality of information available on the issuer to be satisfactory for the purposes of assigning and maintaining credit ratings. CI does not audit or independently verify information received during the rating process.

The rating has been disclosed to the rated entity and released with no amendment following that disclosure. This is a first-time rating for the issuer.

The principal methodology used in determining the ratings is *Insurance Rating Methodology*. The methodology, the meaning of each rating category, the time horizon of rating outlooks and the definition of default, as well as information on the attributes and limitations of CI's ratings, can be found at www.ciratings.com. Historical performance data, including default rates, are available from a central repository established by ESMA (CEREP) at http://cerep.esma.europa.eu.