PRESS RELEASE

NECO INSURANCE LIMITED

May 2026

Rating

Instruments/ Facilities	Amount (NPR Mn)	Rating	Rating Action
Issuer Rating	NA	IRN A+ (Is)	Reaffirmed and removed from watch with negative implications

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has reaffirmed the issuer rating of IRN A+(Is) [A Plus (Issuer)] as well as removed the rating from watch with negative implications. Issuers with this rating are considered to have the adequate degree of safety regarding timely servicing of financial obligations. Such issuers carry low credit risk.

Detailed Rationale

The reaffirmation of ratings along with removal from 'Watch with Negative Implications' rating reflects improved visibility into the company's capacity to absorb losses arising from major riots in September 2025 both in terms of liquidity and balance sheet strength. As of April 21, 2026, the company reported gross claims of around 1,149 Mn from 264 claims with a retention ranging from ~minimal percentage to ~35%[1] with management estimating finalized cost to company at around NPR 200 Mn (excluding reinsurer's share) following final valuation by valuators and surveyors. The claim payment is expected to be supported by healthy liquidity position of the company as evident in high solvency margin of 5.06x as of mid-January 2026 as against regulatory requirement of 1.3x owing to inflow of capital in form of right shares issuance. The existing reinsurance arrangements, together with sufficient on-balance sheet liquidity, are expected to enable the company to meet its obligations without major strain, although profitability is likely to be adversely affected in FY26, as evident by negative underwriting surplus of ~NPR 125 Mn and modest PAT of ~NPR 11 Mn till Mid-January 2026.

Likewise, the rating continues to derive strength from strong ownership structure including a 15% stake from a government-owned commercial bank and a 17.90% stake held by Mahato group, long track record of operations and experienced well-diverse Board of Directors (BOD) and management team. The rating continues to derive strength from healthy solvency margin (5.06x in FY25 vis-à-vis 3.84x in FY24) and healthy retention ratio (~55% in FY25 vis-à-vis ~57% in FY24). The ability of management to maintain healthy solvency margin despite increase in actuarial determined unexpired risk reserves primarily resulting from first time creation of additional reserves under RBC framework guideline in FY24 is key rating strength. The rating also continues to derive strength from NIL's well-diversified investment portfolio amounting to NPR 6.9 Bn in FY25 (~9% Y-O-Y Growth). Also, the rating continues to derive strength from extensive operating history (since 1996), strong franchise network consisting of 99 branches and healthy liquidity position.

However, these rating strengths are partially offset by the company's continued concentration of portfolio on property and motor segment, which combined accounted for ~79% of its Net Premium Earned (NPE) in FY25 (~80% in FY24). The future underwriting performance of NIL continues to be influenced by the performance of these segments. The rating also remains constrained due to reduced investment yield (4.06% in FY25 vis-à-vis 7.55% in FY24) owing to industry wide decrease in investment returns. Rating concerns also continues to arise from intense competition within the industry and uncertainties surrounding changes in insurance laws and regulations mandated by the NIA, impacting profitability. Rating concern also arises from inherent volatility in claims and thereon profitability indices prevalent in non-life insurance businesses on occurrences of insured peril as exhibited by NIL's high claim ratio of ~94% and negative underwriting surplus during H1FY26 on account of protests and floods in FY26. Going forward, the company's capability to upscale

[1] In case of Property and Engineering portfolio, for sum insured up to NPR 100 Mn, NIL's retention is 35% and for sum above NPR 100 Mn, the retention is minimal.

proportionally while upholding financial metrics and solvency standards will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Strong solvency and high retention ratio

As of mid-July 2025, NIL's solvency margin, calculated as per the NIA's Risk Based Capital and Solvency Directive, stood at ~5.06 times (versus a regulatory minimum of 1.3 times) against ~3.84x times as of mid-July 2024 The improvement in solvency ratio can be attributed to the sound and secure investment strategy of NIL coupled with accentuation of profits in reserve and surplus and increased paid up capital owing to right share issuance. Furthermore, NIL continues to maintain a notably higher retention ratio relative to its peers within the general insurance sector. As of mid-July 2025, the retention ratio stood at ~55% (~57% in FY24), a substantial margin above the industry average of ~40%. This indicates robust policyholder loyalty and effective risk management strategies, contributing positively to NIL's overall financial profile and operational resilience.

Increasing scale of operations and stable profitability albeit lowered in FY26 due to protest related claims

NIL's PAT remains stable albeit moderated by ~2% to NPR 579 Mn in FY25 from NPR 591 Mn in FY24 on account of increase in actuarial liability and reduced investment income due to lowered interest rates. Despite such reduced NPE, the underwriting surplus increased to NPR 469 Mn in FY25 from 396 Mn in FY24 owing to higher retention and increased scale of operations. NIL's investment portfolio shows healthy Y-On-Y growth of ~9% reaching ~NPR 6.9 Bn in FY25 from NPR 6.3 Bn in FY24. However, the investment yield has reduced significantly from 7.6% in FY24 to 4.1% in FY25 owing to excess liquidity in Nepalese economy. The audited figures of FY24 have taken a hit vis-à-vis provisional figures of FY24 due to adoption of new "RBC" framework in FY24 which required excess provisioning in both claims and premium. Profitability declined in FY26 primarily due to a surge in claims arising from protest-related events. The company experienced a sharp increase in its claims ratio, reaching ~94%, driven by substantial losses in the property and motor segments linked to damages to property and inventories during the Gen-Z protests. Consequently, the combined ratio rose to ~118%, resulting in an underwriting loss of around NPR 125 Mn. The situation was further pressured by a decline in investment returns, with the investment income ratio falling to about 10%, leading to a modest profit after tax of NPR 11 Mn as of H1FY2026.

Long track record, strong market position and seasoned management team

Established in 1994 AD, NIL boasts over three decades of operational history, making it the one of the oldest insurance companies in Nepal. Similarly, NIL has strong promoter profile with Rastriya Banijya Bank Limited and Citizen Investment Trust being top promoters of the company. Alongside strong promoter group, NIL has well- seasoned and experienced management team led by its board of directors. BOD is chaired by Mr. Ramesh Kumar Niraula, who brings in decades' worth of experience in banking and insurance sectors. He is well supported by other directors and management personnel. The management team is led by Mr. Ashok Kumar Khadka, CEO having more than 3 decades of experience in banking and insurance sectors. He is further supported by group of well experienced and qualified personnel.

Key Rating Weaknesses

Portfolio concentration in motor and property segment

NIL operates across seven of the eight insurance segments, with a notable absence in the Air-Flight segment and limited exposure in Micro (~1% of NPE), Cattle Crop (~1%). Engineering (~6% of NPE) and Marine (~7% of NPE) segment as of FY25. The portfolio remains highly concentrated in the Motor segment, which accounts for ~51% of Net Premium Earned (NPE) and 37% of Gross Premium Written (GPW) as of FY25 (compared to ~52% of NPE and ~37% of GPW at FY24-end). The Property segment is the second-largest contributor, representing ~28% of NPE and ~32% of GPW. Together, the Motor and Property segments contribute ~70% of GPW and ~79% of NPE (~68% of GPW and ~83% of NPE at FY24-end), underscoring portfolio concentration risk. NIL's liquidity position is significantly dependent on premium retention in these key segments, with retention levels at ~70-80% for Motor and ~50-60% for Property. The high retention in the Motor segment results in a lower commission income ratio (~8%) and an elevated claim ratio (~75%) as of FY25. This portfolio composition and retention strategy highlight NIL's exposure to segment-specific risks, particularly in Motor, which could impact overall profitability and liquidity.

Impact of regulatory changes on industry structure and operating environment

In recent years, the insurance industry has encountered a series of regulatory adjustments, significantly impacting its operational landscape. These changes include alterations in tariffs, risk coverage, capital requirements, and competitive dynamics. The licensing of numerous general insurers in FY2018 reshaped the industry's competitive landscape. The recent revision in minimum paid-up capital requirements has further impacted the operating environment, leading to mergers among some companies and others seeking fresh equity infusion. Although regulatory changes aim to enhance insurance sector penetration and industry growth, they concurrently pose challenges for players, including NIL. Navigating these changes demands strategic agility and adaptability to sustain profitability and ensure long-term viability in the dynamic insurance landscape.

Fragmented market with intense competition

In Nepal's non-life insurance sector, the competitive landscape presents significant challenges for companies, particularly in retaining customers and ensuring profitability. The market is crowded with numerous insurance companies with growth opportunities being limited, leading to intense competition. Companies are aggressively striving to retain their existing customer base, resulting in pricing pressures and difficulties in distinguishing their products. Moreover, since the motor segment serves as a primary revenue source for non-life insurers in Nepal, any slowdown in the automobile industry or changes in vehicle financing regulations could hinder growth prospects. Currently, there are 14 insurance companies in Nepal, down from 20. These companies collectively generated a Gross Premium Written (GPW) of ~NPR 42.63 billion during FY25, with NIL holding ~8% of the total GPW, and ~11% of total Net Premium Earned(NPE), indicative of a stable position in the industry.

Analytical Approach: Standalone

Applicable Criteria:

Issuer Rating Methodology & Insurance Company Credit Rating Methodology

Past Rating Rationale:

Neco Insurance Limited: Issuer Rating Reaffirmed

Credit Rating Placed on watch with negative implications

About the Company:

Established in December 1994, Neco Insurance Limited (NIL) is the 9th private sector general insurer in Nepal. NIL has ~8% of the market share in terms of the general insurance industry's gross premium written in FY25. As of mid-January 2026, the company is in operation with 99 branches spread across the nation for procuring business and extending after-sales services. NIL has a 51:49 promoter–public shareholding ratio. The major shareholders as on mid-January 2026 include Rastriya Banijay Bank Limited (15%), Kriti Kumari Mahato (10.90%), Citizen Investment Trust (8.12%), B.K. Vinayak Private Limited (7.01%), Agriculture Development Bank Limited (3.34%), among others.

Financial Indicators (Standalone)

Amount in NPR million	FY22	FY23	FY24	FY25	H1FY26
	Audited				Unaudited
Gross Premium Written (GPW)	2,854	2,922	3,141	3,282	1,803
Net Premium Written (NPW)	1,924	1,681	1,783	1,789	1,116
Retention	67%	58%	57%	55%	62%
Net Premium Earned (NPE)	1,689	1,792	1,603	1,901	697
Underwriting Surplus	429	530	396	469	-125
Net Claims Incurred / NPE (Claims Ratio)	53%	49%	48%	52%	94%
Management Expenses / NPE (Expense Ratio)	33%	36%	45%	41%	47%
Net Commission Expenses / NPE	-11%	-15%	-17%	-18%	-23%
Combined Ratio (A)	75%	70%	75%	75%	118%
Investment Income / NPW	18%	27%	25%	16%	10%
PAT/ Total Asset Base	7%	9%	6%	5%	0%
PAT/ Reported Net Worth	15%	16%	11%	9%	0%
Profit After Tax	547	705	591	579	11

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