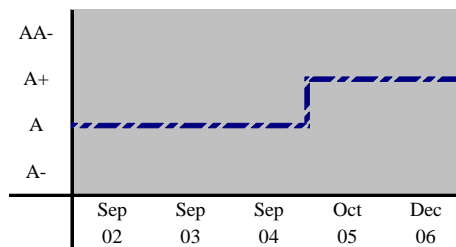


**ATLAS INSURANCE LIMITED (AIL)****RATING (DECEMBER 2006)****ATLAS INSURANCE LIMITED**

(FORMERLY: MUSLIM INSURANCE COMPANY LIMITED)

	NEW	PREVIOUS
<b>INSURER FINANCIAL STRENGTH</b>	<b>A+</b>	<b>A+</b>

**RATING HISTORY****FINANCIAL DATA**

PKR (mln)

	31-Dec-05	31-Dec-04
Total Assets	843.2	509.8
Total Equity	370.8	202.2
Underwriting Results	152.2	59.0
Pre-tax Profit	304.7	104.9
Loss Ratio (%)	24.40	27.75
ROE (%)	88.69	48.35
Premium Solvency Ratio (%)	124.22	133.21

**ANALYSTS**

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**RATING RATIONALE****ASSESSMENT**

- The rating reflects AIL's strong financial base, which adequately supports the company's lately adopted accelerated growth stance. The rating also recognizes the company's sound underwriting practices that have resulted in a stable – indeed growing – income form core insurance business. At the same time, association with Atlas group, with group business providing a sizeable low-risk contribution, is a key rating factor.
- AIL is following an aggressive growth strategy that has helped in improving its market share. However, despite substantial increase in non-captive business, the business from group companies, negotiated on competitive terms, continues to dominate the total premium written. Capacity expansions and consequential business growth by group companies belonging to the automobile segment have provided a sizeable incremental business volume. In terms of business mix, there has been a significant increase in the proportion of motor insurance with a relative decline in the share of marine insurance, though it is still the largest contributor towards the total volume. During 2005 and in the current year, AIL has achieved a growth rate of above 50% in the gross premium. However, despite substantial volume expansion, the company's loss trend has not experienced any material deterioration and is still at a low level compared to peers. This, in addition to the company's stringent risk evaluation and monitoring systems, is a function of low-risk captive business. Given declining operating expenditure – relative to premium – the benefit of volume expansion is reflected in improved underwriting results.
- Going forward, the management intends to maintain the growth trend over the medium-term. While continuing to capitalize on group business, the company is targeting a higher level of non-captive business mainly from small and medium-sized enterprises, with the aim of increasing the proportion to above 50% in the total premium mix. In pursuance of its strategy, the company is further strengthening its branch operations. While providing requisite technical and human resources and delegating adequate level of decision-making authority to existing branches, AIL plans to gradually expand its network with a focus on big cities. The business mix is expected to experience further increase in motor insurance, though its proportion in the total would remain lower than the industry trend. The management is cognizant of limited range of insurance products being offered by AIL. The company has recently started offering insurance services covering engineering businesses and is developing other products including travel and loan-linked insurance coverage mainly for crop and housing finance. AIL is in the process of implementing company-wide core software based on centralized architecture that is expected to further improve efficiency of its operations and customer services.
- AIL follows sound underwriting practices and its endeavor to grow is without any compromise on its prudent approach towards risk. The company maintains surplus and excess of loss treaties accompanied by facultative contracts with international reinsurers mostly having ratings in 'AA' category. At the same time, to accommodate growing volumes, AIL continues to increase its reinsurance capacities. However, overall retention level, mainly due to increasing proportion of the motor insurance whereby risk is largely retained internally, is gradually increasing. The company is also strengthening the risk management function by improving overall procedures and controls.
- In recent years, the management is paying increasing attention to the company's investment operations, which is reflected in almost equal contribution of investment income in the total operating revenue. AIL's investment portfolio, dominated by equity securities, constituted around 56% of its total assets at end-Sep 06. The equity portfolio, in addition to investments in group companies, comprises fundamentally strong stocks, wherein the management intends to benefit from stock market movements. The company had unrecognized revaluation surplus of around PKR 205mln at end-Sep 06. However, as this surplus pertains mainly to investments in group companies, the potential capital gains may be realized only in notional terms.
- The company follows a prudent dividend distribution policy, which has helped in maintaining a healthy financial base despite steady business expansion. AIL has strong solvency position, higher than most of the peers, and maintains adequate liquidity mainly in the shape of a sizeable listed equities portfolio.

**SUPPORT**

- Although Atlas Group is under no contractual agreement to support AIL, in PACRA's opinion, being the major shareholder with sufficient financial strength, the group would lend support if it proves necessary.

**PROFILE**

- Atlas Insurance Limited, formerly Muslim Insurance Company Limited, is one of the oldest insurance companies operating since 1934. The company, listed on Karachi and Lahore Stock Exchanges, was acquired by Atlas group in 1980. However, the name is changed recently to further benefit from the group's franchise value. Atlas Group is well diversified with interests in commercial banking, asset management and automobile sector.
- With a nationwide network of 16 branches, AIL underwrites all types of general insurance business. Overall control of the company vests in the board of directors, with the group's executive committee also providing strategic guidance. The current chief executive, holding this position since 2004, has extensive exposure to the insurance sector.