



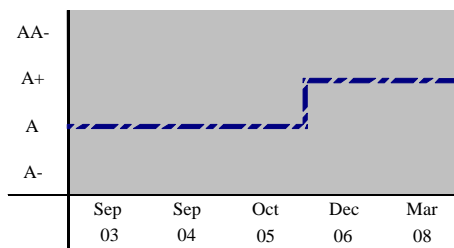
ATLAS INSURANCE LIMITED (AIL)

RATING (MARCH 2008)

ATLAS INSURANCE LIMITED

	NEW	PREVIOUS
INSURER FINANCIAL STRENGTH	A+	A+

RATING HISTORY



FINANCIAL DATA

PKR (mln)

	31-Dec-07	31-Dec-06
Total Assets	1,733.4	1,191.5
Total Equity	970.2	456.3
Underwriting Results	144.6	155.0
Net Income	409.8	300.7
Loss Ratio (%)	48.1	38.1
ROE (%)	49.9	53.3
Premium Solvency Ratio (%)	217.1	156.1

ANALYSTS

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RATING RATIONALE AND KEY DRIVERS

- The rating reflects AIL's strong risk absorption capacity emanating from a sound financial profile and healthy solvency margins, that adequately supports the company's growth stance. The company's underwriting performance, though still strong compared to peers, is under pressure due to changing premium mix to non-captive insurance business. Meanwhile, the equities investment portfolio – while being inherently volatile – lends significant support to overall profitability. At the same time, the company's association with a reputed business group, with group companies accounting for a sizeable low-risk contribution to the overall business, remains a key rating factor.
- The company's ability to maintain the growth momentum and successful and sustainable expansion in the product base, in turn, boosting AIL's relative positioning within the insurance industry, would have positive implications for the rating. Meanwhile, any significant weakness in the underwriting performance impacting the risk absorption capacity and/or prolonged downturn in the stock market affecting AIL's investment income could have adverse impact on the rating.

ASSESSMENT

- More recently, there is a clear shift in the business profile of the company. AIL's management, in pursuance of its growth strategy, has been focusing on the non-captive business. Although the group companies remain a valuable resource for AIL, the proportion of captive business in the overall premium written has been declining (CY05: 62% CY06: 49%, CY07: 46%). The enhanced exposure to non-group companies is diversifying the business mix of the company, but it has put pressure on the overall risk profile of AIL due to higher probability of loss from non-group business. The proportion of the low risk group business is expected to further go down in the overall business mix, especially in the marine segments, on the back of slow down in the business growth of the group companies.
- In terms of premium mix, traditionally, marine business has been the largest contributor towards the gross premium. Now, the motor segment has the leading share followed by fire and marine segment. During 2006 and 2007, AIL improved its market share to around 2.5% (CY05 2.3%) in an increasingly competitive environment by posting a healthy increase of 28% and 17%, respectively, in GPW. However, the company could not generate commensurate underwriting profitability due to higher incidence of claims, arising from increased exposure in motor segment and non-captive business. This trend adversely impacted the loss ratio and, in turn, the combined ratio. Nevertheless, these ratios remain strong and are still lower than the peers. AIL's net income was augmented by higher investment income, mainly on the back of sizeable capital gains on the investment portfolio.
- Going forward, the management intends to maintain the growth trend and current business mix 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. In pursuance of its strategy, the company is further strengthening its branch operations – with a focus on big cities. AIL 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. However, these remain relatively new avenues for the company. Moreover, insurance industry dynamics are fast changing with a higher degree of competition amongst peers, highlighted by aggressive market initiatives taken by most players to expand volumes and core underwriting profitability. With companies putting greater emphasis on product and service innovation and tapping niche markets, AIL would face stiff competition for expansion in non-captive segments and new products, while keeping respective insurance costs under control.
- AIL follows sound underwriting practices and the company is also strengthening the risk management function by improving overall procedures and controls. During 2006, the overall cession level reduced due to increase in the proportion of motor business and higher retention in marine business, increasing the company's overall retention. However, the company increased its cession levels in 2007, by increasing its reinsurance capacities to accommodate the expanding business volume. AIL continues to maintain surplus and excess of loss treaties accompanied by facultative contracts with credible international reinsurers mostly having ratings in 'A' category or higher. 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. Meanwhile, given the increasing trend in claims related to non-captive growth initiatives, respective development of market oriented risk management framework would remain crucial.
- In recent years, the management is paying increasing attention to the company's investment operations, which is reflected in higher contribution of investment income (around 70% in 2007) in the total operating revenue. AIL's investment portfolio, dominated by equity securities, constituted around 59% of its total assets as at end-Dec 2007. The diversified 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 176mln at end-Dec 07. However, as this surplus pertains mainly to investments in group companies, the potential capital gains may be realized only in notional terms. The management intends to further increase its investment in the group companies and has obtained the approval of shareholders, in this regard.
- 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.

PROFILE

- Atlas Insurance 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 derive benefits of the group's franchise value and brand recognition. Atlas Group is well diversified with interests in commercial banking, asset management, trading and automobile sector.
- With a nationwide network of 20 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.