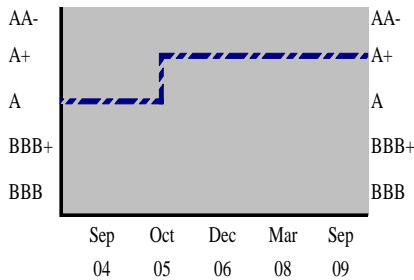


**The Pakistan Credit Rating Agency Limited**

RATING (SEPTEMBER 2009)

ATLAS INSURANCE LIMITED (AIL)

	NEW	PREVIOUS
INSURER FINANCIAL STRENGTH	A+	A+

RATING HISTORY**FINANCIAL DATA**

PKR (mln)

	Jun-09*	Dec-08	Dec-07
Total Assets	1,514	1,340	1,733
Total Equity	641	626	970
GPW	465	861	784
Underwriting Results	60	158	145
Net Income	105	(200)	410
Loss Ratio (%)	42	45	48
ROE (%)	25	(25)	50
Premium Solvency Ratio (%)	126	119	217

* based on unaudited half-yearly accounts

ANALYSTS

Adnan Dilawar
+92 42 586 9504
adnan@pacra.com

Umair ur Rehman
+92 42 586 9504
umair@pacra.com

RATING RATIONALE AND KEY DRIVERS

- The rating reflects AIL's strong risk absorption capacity emanating from a sound financial profile and relatively stable underwriting performance. Strengthening its risk management systems remains critical, as the company's risk profile could come under pressure due to changing premium mix to non-captive insurance business. Meanwhile, a sizable equities portfolio continues to fortify the financial strength and profitability, though the recent meltdown in the stock market has impacted this to some extent. The company's association with a reputed business group, with group companies providing a sizeable low-risk contribution to the overall business, remains a key consideration.
- The company's ability to maintain the growth momentum, in turn, boosting AIL's relative positioning within the insurance industry, would have positive implications for the rating. Meanwhile, any drastic change in the business mix and/or in re-insurance arrangements, leading to unmanageable losses, could have adverse impact on the rating.

ASSESSMENT

- Due to low penetration of insurance products, and a relatively stable economic environment in the past, the insurance industry in Pakistan recorded significant growth. However, the current economic slowdown, coupled with a significant deterioration in the risk profile of the country, has put pressure on the sector's performance. Although the group companies remain a valuable resource for AIL, the proportion of captive business in the overall premium written has declined steadily (CY08:46%, CY05:62%). 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 the company. AIL's underwriting was dominated by the Motor segment (CY08:34%, CY07:36%), with Marine (CY08:32%, CY07: 25%), Fire(36%) and Misc. (7%) constituting the rest of the portfolio.
- In 2008, despite pressures in the operating environment, AIL continued its growth momentum and registered a moderate (10%) increase in GPW. Underwriting profitability declined as a percentage of premium earned (CY08:17%, CY07:20%) mainly due to higher management expenses. The loss ratio declined (CY08:45%, CY07:48%), primarily on the back of lower losses in the Marine segment. While the top-line growth was maintained, the bottom line was rendered in red due to the high impact of the revaluation deficit on investments (PKR 426mln at end-08), all of which was routed through the income statement.
- Going forward, conventional insurance products are expected to come under pressure due to slowdown in the economy and high competition within the industry. The management plans to focus on the Marine segment (liquid transportation) and SME sector. Meanwhile, AIL is also targeting expansion in the Engineering and Construction sector. However, AIL's late entry in specialized products and comparatively low franchise value in non-captive segment could impact growth prospects.
- AIL has a customized IT solution, which significantly enhances its ability to regulate operations and sales. The real-time MIS comprises a centralized database (Oracle 10g) and web based front-end for reporting. From policy issuance to claims disbursement, the various operational roles are integrated in one application. The company follows prudent underwriting practices and continuously strengthens its risk management framework to withstand changing dynamics of the industry. AIL avoids price-cutting as a tool to gain business volumes, that helps in maintaining a robust risk profile.
- The investment portfolio of the company is dominated by equity investments and the management divides its investments into three pools of varying sizes: i) strategic investments, stake in group companies, ii) blue-chip equities, and iii) trading portfolio, seeking short-term capital gains. Going forward, the management intends to increase the size of the trading portfolio. This, while enhancing the possibility of capitalizing on trading opportunities, increases AIL's exposure to stock market volatility. Further, the management has not set any loss limits and no guidelines are available for sectoral distribution of the portfolio. The development of a comprehensive investment policy with focus on risk-adjusted returns remains to be seen.
- AIL has various surplus and excess of loss treaties with Swiss Re (Rated 'AA' by S&P), Hannover Re (Rated 'AA-' by S&P), Malaysian Re (Rated 'A-' by AM BEST) and Best Re (Rated 'A-' by S&P). Lately, AIL is making efforts to increase the proportion of Asian reinsurers in its reinsurance mix, currently dominated by Western companies. This, while helping to manage commission income, is expected to support in getting treaties for new risks.
- The risk absorption capacity, as denoted by the premium solvency ratio, while down from last year, is still high when compared with peers. The company maintains an all-equity capital structure, giving it financial flexibility. Liquidity is maintained in the form of cash (bank accounts) and equities portfolio.

PROFILE

- Listed on Karachi and Lahore Stock Exchanges, AIL started operations in 1931 and was acquired by Atlas group in 1980. AIL underwrites all types of general insurance and has a network of 20 branches in Pakistan. The CEO, Mr. Arshad P. Rana, has led the company for six years and is supported by a qualified management team.
- AIL forms part of the Atlas Group of companies. The group has interests in Auto, Engineering and Finance sector. The group is led by its Chairman, Yousaf Sherazi and Group President, Amir Sherazi. The two are supported by the Group Executive Committee, which liaisons with the management of individual companies to monitor their performance.