



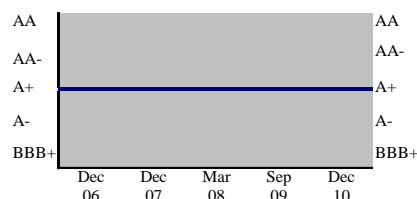
## The Pakistan Credit Rating Agency Limited

RATING (DECEMBER 2010)

### ATLAS INSURANCE LIMITED (AIL)

	New	Previous
<b>Insurer</b>		
<b>Financial Strength</b>	A+	A+
<b>Outlook</b>	Positive	-

### RATING HISTORY



### FINANCIAL DATA

PKR (mln)

	Sep-10*	Dec-09	Dec-08
Total Assets	1,787	1,905	1,340
Total Equity	788	748	626
GPW	674	911	861
Underwriting Results	125	105	158
Adjusted Underwriting Results	107	86	144
Net Income	174	189	(200)
Loss Ratio (%)	40.3	43.3	45.5
ROE (%)	30.2	27.5	(25.0)
Operating Ratio(%)	35.9	46.5	127.8
Liquid Assets/Net Claims (times)	4.1	3.9	2.8

\* based on unaudited accounts for nine months ended September 30, 2010

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### RATING RATIONALE AND KEY DRIVERS

- The rating reflects AIL's sustained underwriting profitability supplemented by sound underwriting practices, effective controls and strong technology infrastructure. Meanwhile, the company continues to maintain a robust financial profile emanating from healthy liquidity and solvency positions, further aided by the management's cautious approach as evident from low risk retention levels. The rating also draws strength from the company's association with Atlas Group, which provides sizable low-risk business, ensuring stability to the company's revenues.
- The rating has been assigned a positive outlook and remains dependent on the management's ability to improve AIL's market positioning while maintaining its underwriting performance. Meanwhile, material deterioration in underwriting profitability and/or significant dilution in investment portfolio, materially impacting the risk absorption capacity, would have negative impact on the rating.

### ASSESSMENT

- Pakistan's insurance sector experienced accelerated growth and robust profitability in recent years in unison with benign economic environment. Although insurance penetration in the country remains low, the sector now faces major challenges arising from economic slowdown, security concerns, widening fiscal and trade imbalances, and stressed global reinsurance market. These factors, coupled with subdued performance of various industrial sectors and slow pace of recovery, are likely to continue impacting growth prospects of the insurance sector. The overall profitability of the sector could be further stressed on the back of devastating recent floods in the country and volatile performance of stock exchange.

- AIL, the sixth largest domestic insurance company, posted moderate growth (6%) in GPW during 2009. Captive business represents significant portion of the company's total business (CY09: 54%, CY08: 46%). Although reliance on group business increases client concentration, it reflects positively on the AIL's risk profile due to low moral hazard associated with group companies. During 2009, AIL enhanced its focus on fire segment to support its topline contributing around 40% in GPW, followed by motor segment (27%), marine (24%) and Miscellaneous (9%). Moreover, overall balance of the portfolio-mix changed during 9M10, as contribution of Fire Insurance to GPW reduced in favor of marine and miscellaneous segments. The growth in GPW did not translate into commensurating underwriting profitability due to higher management expenses mainly on account of increase in salaries, wages and other benefits and increase in advertisement expenses. Investment yield of the company increased significantly in CY09 on the back of recovery in the stock market and augmented the overall profitability of the company. Moreover, the cession levels remained at moderate level (9MCY10: 47.01%, CY09: 51.31%) implying conservative approach towards risk management.

- Going forward, besides focusing on traditional insurance products, the company plans to concentrate on recently launched products (crop, terrorism, travel and credit insurance). Furthermore, company is planning to start health insurance. However, considering the intense competition and challenging economic environment the materialization of growth and diversification strategies will remain critical.

- AIL has a customized IT solution, which provides tools for effective monitoring and quick decision making. From policy issuance to claims disbursement, the various operational roles are integrated in one application. To facilitate users, flexible reporting tools have been provided. The system assigns authority levels to its users and enforces strict compliance with internal procedures.

- AIL's balanced investment portfolio (9MCY10: PKR 936mln), accounting for 52% of its total asset base at Sep-10, comprises equity investments (43%), Bank Deposits and TDRs (30%), Mutual Funds (23%) and Government Securities (4%). The majority of equity investments are in group companies. These strategic investments, though not held for trading, can be utilized to generate liquidity in times of crises.

- As a matter of prudence, AIL does not underwrite risk without reinsurance. The company has various reinsurance arrangements with reputed international re-insurers including Swiss Re (Rated 'A+' by S&P), Hannover Re (Rated 'AA-' by S&P), Malaysian Re (Rated 'A-' by AM BEST), Best Re (Rated 'A-' by AM BEST), Tokio Marine (Rated AA by S&P) and Sampo Japan (Rated AA by S&P).

- AIL's financial profile remains sound, supplemented by strong liquidity and solvency ratios. The company has an all-equity financed structure. Thus, given the absence of gearing and the large portfolio of listed securities, the company retains the capacity to raise funds, in case need arises.

### PROFILE

- Listed on Karachi and Lahore Stock Exchanges, AIL started operations in 1934 and was acquired by Atlas group in 1980. AIL underwrites all major types of general insurance and has a network of 22 branches in Pakistan. The CEO, Mr. Arshad P. Rana, has led the company since 2004 and is supported by a qualified management team.

- AIL forms part of Atlas Group. The group has interests in Auto, Engineering, Power and Finance sector. The group is led by its Chairman, Mr. Yousaf Shirazi and Group President, Mr. Amir Shirazi. The two are supported by the Group Executive Committee, which liaisons with the management team of individual companies to monitor their performance. The Board of Directors of AIL comprises seven members of which three are independent members, while the rest are group affiliates.