



The Pakistan Credit Rating Agency Limited

Rating Report

Atlas Insurance Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Aug-2021	AA	-	Stable	Maintain	-
28-Aug-2020	AA	-	Stable	Maintain	-
29-Aug-2019	AA	-	Stable	Maintain	-
27-Feb-2019	AA	-	Stable	Maintain	-
13-Dec-2018	AA	-	Stable	Maintain	-
27-Apr-2018	AA	-	Stable	Maintain	-
02-Oct-2017	AA	-	Stable	Maintain	-
10-Mar-2017	AA	-	Stable	Upgrade	-
30-Dec-2016	AA-	-	Stable	Maintain	-
31-Dec-2015	AA-	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Atlas Insurance has built and sustained its relative positioning in the peer universe. Atlas stands at a very high level in terms of its profitability. The Company has a very high amount of contribution from its core business, as against other companies which garner less support from core business. The Company has gradually enhanced its non-group business over the years. The envisaged strategy is to expand the business size while retaining core profitability. The association with Atlas group provides benefits in terms of sustained low-risk captive business, while ensuring sound governance framework. The Company has a strong panel of reinsurers with favorable treaty terms and prudent risk retention policies. The robust equity and investment book provides ample cushion to Atlas Insurance in terms of fulfilling its claim obligations without affecting its liquidity base adversely.

In terms of Gross Premium Written (GPW), Pakistan's general insurance industry had a total size of PKR ~108,322mln in CY20, (less than ~1% of its GDP), with a growth of ~3.7% from the previous year (CY19: PKR ~104,453mln). The insurance industry in Pakistan is relatively small compared to its peers in the region. The insurance penetration and density remain very modest as compared to other jurisdictions while the insurance sector remains underdeveloped relative to its potential. Gross premiums written of non-life insurers in India reached USD ~26.5bln in FY21, from USD ~26.4bln in FY20.

The rating is dependent on sustained improvement in business and financial metrics of the Company in line with its relative positioning within the industry. At the same time, the liquidity profile should continue to cushion the liabilities.

Disclosure

Name of Rated Entity	Atlas Insurance Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology General Insurance Rating(Jun-21)
Related Research	Sector Study General Insurance(May-21)
Rating Analysts	Muhammad Noor Ul Haq noorulhaq@pacra.com +92-42-35869504



Profile

Legal Structure Atlas Insurance Limited (AIL) is one of the the oldest insurance companies within the country; established in 1934 and was acquired in 1980 by Atlas Group. Atlas Insurance is listed on Pakistan Stock Exchange under the symbol - ATIL.

Background Atlas Group acquired Muslim Insurance Company Limited in 1980 and later in 2006, changed the name to Atlas Insurance Limited.

Operations Atlas Insurance operations are currently carried out from a network of 26 branches including the Head Office in DHA Phase III, Lahore.

Ownership

Ownership Structure Sponsors, Atlas Group (AG), control 78% stake in Atlas Insurance. Rest is owned by Individuals (15.2%), State Life Insurance Corporation (2.8%), and a few Financial Institutions (2%).

Stability The Company has made steady progress since its acquisition by the Atlas Group. The equity of the Company has grown to PKR 4.75bln, total assets having grown to over PKR 9.57bln and investments of PKR 6.9bln as at end 3MCY21.

Business Acumen The group operates through holding Company "Shirazi Investments (Pvt) Ltd" and has interests in various diversified sectors. It comprises of eighteen companies.

Financial Strength Comfort can be drawn from the strong financial strength of the Atlas Group. Atlas Group having 78% stake in AIL - is a leading conglomerate of Pakistan with interests in Auto, Engineering, Power, Financial Services and Trading.

Governance

Board Structure Overall control of the Company vests in the seven-member Board of Directors (the Board).

Members' Profile The Board includes two independent members and one executive director - CEO. The rest are non-executive directors from various group affiliates.

Board Effectiveness The Board has formed Audit Committee, Ethics, Human Resource & Remuneration Committee, and Investment Committee. The Board has also established management committees namely Underwriting, Reinsurance & Co-insurance Committee, Claims Settlement Committee, Risk Management & Compliance Committee, and Investment Committee.

Transparency A.F. Ferguson & Co., Chartered Accountants were the external auditors of the Company. The auditors expressed an unqualified opinion regarding the financial statements of CY20. Current auditors are EY Ford Rhodes, Chartered Accountants.

Management

Organizational Structure AIL has clearly defined organizational structure. There are two broad segments: i) insurance related activities (i.e. underwriting, claims and reinsurance) and ii) support services (i.e. finance internal audit, HR & Admin, and MIS).

Management Team The current CEO, Mr. Babar Mahmood Mirza, assumed the position in April 2018. He is an experienced Insurance Professional and has over two decades of work experience within the Insurance Industry.

Effectiveness The Company has four management committees, a) Underwriting, Re-insurance/Co-insurance Committee, b) Claims Committee, c) Risk Management & Compliance Committee and d) Information Technology Committee. The meetings of each committee are held quarterly; however, the members meet as and when required to discuss unusual cases.

MIS The system comprises of CORE application (GIS) as JAVA front end and Oracle 11 GR2 as back end. The system assigns authority levels to its users and enforces strict compliance with internal procedures. The IT system supports Head Office operations as well as remote users provide real-time updates. The Company's software – GIS – is developed by Centegy Technologies.

Claim Management System The Company maintains a complete Claim Manual and Claim Policy. The Company's software has an option of generating exception report. The Company has clearly defined claims approval authorities. AIL follows up the case with the surveyors and their performance is assessed on semi-annual basis, mainly focusing on their response time and quality of survey.

Investment Management Function The Board's Investment Committee (IC) sets the guidelines and policies for the Company. The performance is evaluated by IC every quarter. AIL leverages the Group's expertise in this domain to ensure prudent investment decision making.

Risk Management Framework The management has developed and implemented a detailed Risk Management Framework. These guidelines tend to institute a strong risk environment, while laying down underwriting and reinsurance guidelines and identifying functions and responsibilities of all participants from the Board to the support staff.

Business Risk

Industry Dynamics In terms of Gross Premium Written (GPW), Pakistan's general insurance industry had a total size of PKR ~108,322mln in CY20, (less than ~1% of its GDP), with a growth of ~3.7% from the previous year (CY19: PKR ~104,453mln). The insurance industry in Pakistan is relatively small compared to its peers in the region. The insurance penetration and density remains very modest as compared to other jurisdictions while the insurance sector remains underdeveloped relative to its potential. Gross premiums written of non-life insurers in India reached USD ~26.5bln in FY21, from USD ~26.4bln in FY20.

Relative Position Market share stood at 3.25% as at CY20, classifying the Company in the medium-sized entities.

Revenue AIL's GPW increased by 29.7% to PKR 1,070mln for 3MCY21 as compared to PKR 825mln for 3MCY20.

Profitability Loss ratio at 3MCY21 (30.6%) showed slight improvement as compared to CY20 (32.0%). Owing to a decrease in the management expenses, the Combined ratio declined to 76.5% (CY20: 83.5%). The Company reported an improved underwriting profit of PKR 175mln (3MCY20: PKR 141mln). Coupled with the increased investment income, the profitability of the Company appreciated YoY by 12% to record a Profit After Tax at 3MCY21 of PKR 172mln (3MCY20: PKR 153mln).

Investment Performance Investment Income remained consistent YoY, standing at PKR 53.8mln (3MCY20: PKR 53.5mln). For the annual period investment income increased by 6.6%, stood at PKR 239.7mln (CY19: PKR 224.8mln). The rise was led by increased gains of Equity Securities and return on Debt Securities.

Sustainability Going Forward, Atlas Insurance Limited vows to manage sustainable profitability, ensuring consistent improvement in prudent underwriting and risk management. Expansion is also planned with new branches to be added soon; the Company is now focusing on flourishing its window Takaful operations – especially in motor segment.

Financial Risk

Claim Efficiency Claim outstanding days showed high jump on account of increased Net Claims expense, the ratio stood 1229 days end 3MCY21 (CY20: 310 days, 3MCY20: 373 days).

Re-Insurance The Company has re-insurance arrangements with some of the best renowned international reinsurers including Swiss Re ('AA-' by S&P), Hannover Re ('AA-' by S&P), Malaysian Re ('A-' by A.M. Best), Trust Re ('A-' by A.M. Best) and Labuan Re ('A-' by A.M. Best). Treaty arrangement predominantly comprises surplus treaties, while the Company has also arranged quota share and excess of loss (XoL) protection on net retention.

Liquidity AIL's investment portfolio (PKR 6.9bln) constitutes 1.45 times of its equity base. Major portion of the book is deployed in liquid avenues, rest invested in strategic equity stocks of group companies. Liquid portfolio is dominated by equity stocks including equity based mutual funds, government securities, debt securities and money market funds and bank deposit; investment yield of the book clocked in at 3.5%.

Capital Adequacy Atlas Insurance has a paid-up capital of PKR 849mln, thus safely complying with SECP's Capital Adequacy requirement. The equity base as at 3MCY21 was PKR 4.8bln.



The Pakistan Credit Rating Agency Limited

**GENERAL INSURANCE
Financials [Summary]**

Atlas Insurance Limited (AIL)

BALANCE SHEET	3MCY21	CY20	CY19	CY18
	PKR mln	PKR mln	PKR mln	PKR mln
Investments				
Liquid Investments	3,607	3,449	3,197	3,117
Other Investments	3,264	3,664	2,229	1,926
	6,872	7,112	5,426	5,043
Insurance Related Assets	1,324	1,399	496	787
Other Assets	1,375	1,151	1,116	835
TOTAL ASSETS	9,571	9,662	7,034	6,666
Equity	4,746	4,775	3,707	3,461
Underwriting Provisions	1,662	1,382	1,326	1,220
Insurance Related Liabilities	1,662	1,923	974	1,100
Other Liabilities	1,502	1,581	1,028	884
TOTAL EQUITY & LIABILITIES	9,571	9,662	7,034	6,666

INCOME STATEMENT - Extracts	3MCY21	CY20	CY19	CY18
Gross Premium Written (GPW)	1,070	3,046	2,912	2,851
Net Premium Revenue (NPR)	424	1,405	1,455	1,474
Net Claims	(130)	(450)	(469)	(488)
Net Operational Expenses	(119)	(356)	(390)	(302)
UNDERWRITING RESULTS	175	600	596	684
Investment Income	54	240	225	232
Other Income/ (expense)	17	69	74	74
PROFIT BEFORE TAX	246	908	895	989

RATIO ANALYSIS - Conventional	3MCY21	CY20	CY19	CY18
Underwriting Results				
Loss Ratio	31%	32%	32%	33%
Combined Ratio	77%	83%	79%	76%
Performance				
Operating Ratio	77%	83%	79%	55%
Investment Yield	2%	7%	4%	5%
Liquidity & Solvency				
Liquidity Ratio – times	3.0	2.4	5.9	4.3

Atlas Insurance Limited (AIL)

Aug-21

Insurer Financial Strength (IFS) Rating

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of the insurance company to meet policyholders and contractual obligations.

Scale	Definition
AAA	Exceptionally Strong. Exceptionally strong capacity to meet policyholder and contract obligations. Risk factors are minimal and the impact of any adverse business and economic factors is expected to be extremely small.
AA+ AA AA-	Very Strong. Very strong capacity to meet policyholder and contract obligations. Risk factors are modest, and the impact of any adverse business and economic factors is expected to be very small.
A+ A A-	Strong. Strong capacity to meet policyholder and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be small.
BBB+ BBB BBB-	Good. Good capacity to meet policyholder and contract obligations. Although risk factors are somewhat high, and the impact of any adverse business and economic factors is expected to be manageable.
BB+ BB BB-	Weak. Weak capacity to meet policyholder and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors is expected to be very significant.
B+ B B-	Very Weak. Very weak with a very poor capacity to meet policyholder and contract obligations. 'CCC': Risk factors are extremely high, and the impact of any adverse business and economic factors is expected to be insurmountable. 'CC': Some form of insolvency or liquidity impairment appears probable. 'C': Insolvency or liquidity impairment appears imminent.
CCC CC C	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Distressed. Extremely weak capacity with limited liquid assets to meet policyholders and contractual obligations, or subjected to some form of regulatory intervention and declared insolvent by the regulator.

<p>Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.</p>	<p>Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.</p>	<p>Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.</p>	<p>Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s): General Insurance & Takaful Operator, Life Insurance & Family Takaful Operator.

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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

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- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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