



The Pakistan Credit Rating Agency Limited

Rating Report

Atlas Insurance Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Aug-2023	AA+ (ifs)	-	Stable	Maintain	-
26-Aug-2022	AA+ (ifs)	-	Stable	Maintain	-
31-Mar-2022	AA+ (ifs)	-	Stable	Harmonize	-
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	-

Rating Rationale and Key Rating Drivers

In terms of Gross Premium Written (GPW), the general insurance industry has a total size of ~PKR 41bln during 3MCY23 (3MCY22: ~PKR 34bln), exhibiting a growth of ~21.4%. Similarly, the underwriting performance of the industry also improved and reported at ~PKR 1.5bln during 3MCY23 witnessing an increase of ~25% (3MCY22: ~PKR 1.2bln). Improved underwriting and investment performance contributed to the industry's earnings reported at ~PKR 4.1bln during 3MCY23 (3MCY22: ~PKR 3.4bln). However, current economic conditions remain imperative for the overall performance of insurance industry.

Atlas Insurance Limited's ('Atlas Insurance' or 'the Company') rating reflects strong association with Atlas Group ('the Group') that has demonstrated resilience over time. Group holds diversified interest in Auto, Engineering, Power, Financial sectors and Trading. Atlas Insurance has built and sustained its relative position among its peers. The Company generates core income mainly from the insurance business (GPW) as against other companies which garner support from their investment book. The Company has gradually enhanced its reliance on non-captive business. Moreover, prudent underwriting practices along with diversified product slate has helped in achieving healthy underwriting profits. Moreover, the 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 Company's equity and investment book provides cushion to fulfill the claims without impacting liquidity base.

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 offset the liabilities.

Disclosure

Name of Rated Entity	Atlas Insurance Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology Rating Modifiers(Jun-22),Methodology General Insurance Rating(Mar-23)
Related Research	Sector Study General Insurance(Jun-23)
Rating Analysts	Faiqa Qamar faiqa.qamar@pacra.com +92-42-35869504

Profile

Legal Structure Atlas Insurance Limited ('Atlas Insurance' or 'the Company') was incorporated as a public listed entity in 6-Sep-34. The Company is listed on PSX.

Background The Company is a part of Atlas Group ('the Group'), a leading conglomerate holding interests in Auto, Engineering, Power, Financial and Trading sectors. In 1934, Muslim India Insurance Company Ltd. was established; the Group acquired the Company in 1980. Later, in 2006, the name of the Company was changed to Atlas Insurance. The Company became licensed Window Takaful Operator on 2-Mar-16 by SECP under Takaful Rules, 2012.

Operations The Company is engaged in general insurance business, both conventional and takaful. The Company operates a network of 27 branches divided into two zones: South (includes Karachi, Sukkur and Hyderabad) and North (includes Lahore, Rawalpindi, Islamabad, Faisalabad, Sialkot, Sahiwal, and Multan). The head office is located in Lahore.

Ownership

Ownership Structure The Group holds ~78% stake in Atlas Insurance. Rest is owned by State Life Insurance Corporation (~2.8%), Financial Institutions (~0.8%) and others (~2%). General public holds (~16%) of the stake.

Stability The Company's affiliation with Atlas Group augments stability in the ownership structure.

Business Acumen The Group is among the biggest conglomerates operating in diversified sectors across Auto, Engineering, Power, Financial and Trading sectors of the economy.

Financial Strength The Group holds considerable financial muscle, assets base of over a billion USD, to support the Company, if and when needed.

Governance

Board Structure The Board comprises seven members, including: two Independent, four Non-Executives and one Executive Director. There is one independent female director on the board.

Members' Profile The Board is chaired by Mr. Iftikhar H. Shirazi since 2019. He holds over 33 years of management experience. The BoD holds diverse profiles which remains pivotal in formulating apt policies for the Company.

Board Effectiveness To ensure effectiveness, three Board level committees are placed for smooth operations, namely; i) Audit Committee (BAC) ii) Investment Committee (IC) iii) Ethics, Human Resources and Remuneration Committee (E,HR&R). The Board meets every quarter to discuss strategies and performance outcomes. Minutes of these meetings are adequately drafted. Board committees also meet on quarterly basis and minutes are documented adequately.

Transparency Auditors of the Company, M/S EY Ford Rhodes, Chartered Accountants, have expressed an unqualified opinion on the financial statements of CY22.

Management

Organizational Structure The Company institutes a horizontal structure with six departments. Each department is headed by a Department Head, who report to the CEO. The CEO reports to the BoD. However, the Head of Internal Audit and HR&R department administratively reports to the CEO and functionally to the BAC and E,HR&R committee, respectively.

Management Team The CEO, Mr. Babar Mahmood Mirza is a veteran of insurance industry and has extensive domestic and international experience of ~31 years. He has been associated with the Company from 5 years and is ably assisted by a team of well-qualified professionals.

Effectiveness There are four management committees, namely; a) Underwriting Committee (UC), b) Claims Settlement Committee (CSC), c) Re-insurance/Co-insurance Committee (Re-I/CI C), and d) Risk Management and Compliance Committee (RMC). These committees meet on quarterly basis with minutes of the meeting being documented extensively.

MIS The system comprises centralized database and web based front-end for development and reporting. It assigns authority levels to its users and enforces strict compliance with internal procedures. IT system supports Head Office operations as well as remote users provide real-time updates.

Claim Management System Atlas Insurance has comprehensive Claim Policy with clearly defined approval authorities. The Company 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 IC sets guidelines and policies for the Company. Investment advisor, Atlas Asset Management Ltd, prudently invests and manages the Company funds. Performance is evaluated by the IC every quarter.

Risk Management Framework The Company has 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 Written Premium (GWP), the general insurance industry has a total size of PKR ~41bln in 3MCY23 compared to PKR ~34bln in 3MCY22, exhibiting a growth of ~21%. Similarly, the underwriting performance of the industry also improved and reported at PKR~ 1.5bln in 3MCY23 witnessing an increase of ~25% compared to the previous corresponding year (3MCY22: PKR ~1.2bln).

Relative Position Atlas Insurance is ranked among medium tier players with a market share of ~3.7% (as of Dec-22) as per Insurance Association of Pakistan (IAP).

Revenue The Company operates as a conventional (~90%) and window takaful (~10%). During CY22, the Company underwrote GPW (conventional + takaful) of PKR 5,233mln (CY21: PKR 4,107mln), showing growth of ~27%; mainly triggering from conventional side. On segment level, Fire holds the highest share of ~35%, followed by Marine (~27%), Motor (~25%) and Misc (~14%). The Company reported a GPW of PKR 2,014mln during 1QCY23 (1QCY22: PKR 1,608mln) posting a growth of ~25%, mainly from conventional side and from motor segment.

Profitability During CY22, the Company's underwriting income increased to PKR 971mln (CY21: PKR 823mln) due to increase premium translating into higher net premiums. The Company's bottom line closed at PKR 738mln during CY22 (CY21: PKR 855mln) and experienced the dip of ~13% due to reduced investment income and imposition of super tax. The Company posted underwriting profitability of PKR 227mln during 1QCY23 (1QCY22: 228mln).

Investment Performance The Company has maintained a sizable investment book of PKR 6,828mln during CY22 (CY21: PKR 7,320mln) due the reduction of ~6.7% as the Company reduced its exposure in equity instruments due to unstable market conditions. The Company reported the investment book amounting to PKR 6,983mln during 1QCY23 (1QCY22: PKR 7,359mln).

Sustainability Expansion is also on cards with new branches to be added to existing branch network. The Company is now focusing on flourishing its window takaful operations – especially in motor segment.

Financial Risk

Claim Efficiency Claim outstanding days reduced to 229 days in CY22 (CY21: 500 days) which means Company is making efforts to efficiently pay off its claims and lesser time is taken to re-solve the claims that arise during the period. Claim outstanding days stood at 183 days in 1QCY23 (1QCY22: 165 days).

Re-Insurance The Company has re-insurance arrangements with some of the best renowned international reinsurers including Swiss Re (rated "AA-" by S&P), Hannover Re (rated "AA-" by S&P), Malaysian Re (rated "A-" by A.M Best), Labuan Re (rated "A-" by A.M. Best), PRCL (rated "A" by VIS) among others. Treaty arrangements predominantly comprises surplus treaties.

Cashflows & Coverages Liquidity coverage stood at 3.4x as at CY22 (CY21: 4.2x) on account of provisions for outstanding claims (including IBNR). To further augment the liquidity profile, the Company has maintained a cash and bank balance of PKR 2,186mln in CY22 (CY21: PKR 1,458mln). Liquidity coverage stood at 2.7x as of 1QCY23 (1QCY22: 3.0x).

Capital Adequacy The Company has a paid-up capital amounting to PKR 934mln, which is well above the Minimum Capital Requirement (MCR) for non-life insurers established by SECP. The Company possesses an equity base of PKR 3,655mln as of CY22 (CY21: PKR 4,227mln).



PKR Min

Atlas Insurance Limited
Public Listed Company

Mar-23	Dec-22	Dec-21	Dec-20
3M	12M	12M	12M

A BALANCE SHEET

1 Investments	6,938	6,828	7,320	7,462
2 Insurance Related Assets	3,806	2,692	2,025	2,134
3 Other Assets	672	514	323	239
4 Fixed Assets	246	222	148	161
5 Window Takaful Operations	-	-	-	-
Total Assets	11,661	10,257	9,817	9,995
1 Underwriting Provisions	2,758	1,997	1,561	1,468
2 Insurance Related Liabilities	3,394	2,711	2,515	2,240
3 Other Liabilities	1,652	1,794	1,454	1,407
4 Borrowings	90	100	60	73
5 Window Takaful Operations	-	-	-	-
Total Liabilities	7,894	6,602	5,590	5,188
Equity/Fund	3,767	3,655	4,227	4,807

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	2,014	5,233	4,107	3,323
2 Net Insurance Premium/Net Takaful Contribution	607	2,437	2,063	1,579
3 Underwriting Expenses	(379)	(1,466)	(1,240)	(933)
Underwriting Results	227	971	823	646
4 Investment Income	130	66	353	264
5 Other Income / (Expense)	14	76	25	23
Profit Before Tax	372	1,114	1,201	934
6 Taxes	(116)	(376)	(346)	(262)
Profit After Tax	256	738	855	672

PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	163	536	367	277
2 Net Takaful Contribution	41	176	140	112
3 Net Takaful Claims	(54)	(195)	(135)	(92)
4 Direct Expenses Including Re-Takaful Rebate Earned	8	20	3	(5)
Surplus Before Investment & Other Income/(Expense)	(4)	1	8	16
5 Investment Income	12	32	12	12
6 Other Income/(Expense)	(4)	(15)	-	-
Surplus for the Period	4	19	19	27

OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	40	128	93	62
2 Management, Commission & Other Acquisition Costs	(25)	(73)	(50)	(30)
Underwriting Income/(Loss)	15	55	43	31
3 Investment Income	12	32	11	13
4 Other Income/(Expense)	(0)	1	0	(1)
Profit Before tax	27	87	54	43
5 Taxes	(9)	(46)	-	-
Profit After tax	18	41	54	43

C RATIO ANALYSIS

1 Profitability				
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful Contribution	35.4%	37.5%	36.6%	34.3%
Combined Ratio (Loss Ratio + Expense Ratio)	62.5%	60.1%	60.0%	59.1%
2 Investment Performance				
Investment Yield	7.6%	0.9%	4.8%	4.1%
3 Liquidity				
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	2.4	3.0	3.7	2.6
4 Capital Adequacy				
Liquid Investments / Equity (Funds)	157.0%	154.7%	124.5%	94.2%

Insurer Financial Strength (IFS) Rating

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

Scale	Definition
AAA (ifs)	Exceptionally Strong. Exceptionally Strong capacity to meet policy holders and contract obligations. Risk factors are minimal, and the impact of any adverse business and economic factors is expected to be extremely small.
AA++ (ifs) AA+ (ifs) AA (ifs)	Very Strong. Very Strong capacity to meet policy holders and contract obligations. Risk factors are very low, and the impact of any adverse business and economic factors is expected to be very small.
A++ (ifs) A+ (ifs) A (ifs)	Strong. Strong capacity to meet policy holders and contract obligations. Risk factors are low, and the impact of any adverse business and economic factors is expected to be small.
BBB++ (ifs) BBB+ (ifs) BBB (ifs)	Good. Good capacity to meet policy holders and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be manageable.
BB++ (ifs) BB+ (ifs) BB (ifs)	Modest. Modest capacity to meet policy holders and contract obligations. Though positive factors are present, risk factors are relatively high, and the impact of any adverse business and economic factors is expected to be significant.
B++ (ifs) B+ (ifs) B (ifs)	Weak. Weak capacity to meet policy holders and contract obligations. Risk factors are high, and the impact of any adverse business and economic factors is expected to be very significant.
CCC (ifs) CC (ifs) C (ifs)	Very Weak. Very weak capacity to meet policy holders and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors may lead to insolvency or liquidity impairment
D (ifs)	Distressed. Extremely weak capacity with limited liquid assets to meet policy holders and contract obligations, or subjected to some form of regulatory intervention or 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 surveill 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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- (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 | Clause 11-(A)(p).
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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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- (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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- (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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