



The Pakistan Credit Rating Agency Limited

Rating Report

Pak-Qatar Family Takaful Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Jun-2023	A++ (ifs)	-	Stable	Maintain	-
30-Jun-2022	A++ (ifs)	-	Stable	Maintain	-
31-Mar-2022	A++ (ifs)	-	Stable	Harmonize	-
30-Jun-2021	A+	-	Stable	Maintain	-
30-Jun-2020	A+	-	Stable	Maintain	-
20-Dec-2019	A+	-	Stable	Maintain	-
21-Jun-2019	A+	-	Stable	Maintain	-
27-Dec-2018	A+	-	Stable	Maintain	-
12-Jun-2018	A+	-	Stable	Upgrade	-
06-Dec-2017	A	-	Positive	Maintain	-

Rating Rationale and Key Rating Drivers

The rating reflects the maintained market position of the Company, garnering a strong foothold in the takaful industry. Pak-Qatar Takaful has demonstrated steady market share retention, ensuring stability in premium income, while also capitalizing on its substantial investment portfolio to enhance its performance. The ratings affirmations reflect PQFTL's stable risk-adjusted capitalization levels, balanced business profile, and strong operating performance. These factors are attributed to the company's robust underwriting fundamentals and its consistent outperformance compared to industry standards. Company's profitability stands out among its competitors, reflecting its strong business profile and effective underwriting strategies. The consistent track record of delivering strong financial results demonstrates its ability to navigate market challenges and capitalize on opportunities. PQFTL maintains a sound financial risk profile, supported by ample liquidity coverage for policyholders' liabilities. Company's well-diversified investment portfolio, comprising mainly of equity investments and Government securities, enhances its balance sheet strength and ensures sufficient liquidity to meet obligations. The Company's strong operating results in CY22 can be attributed to its robust reinsurance program and disciplined underwriting practices. Despite a challenging business environment, PQFTL maintained its performance, ensuring stability in gross premium written. The Company has benefited from its association with FWU, a Germany based firm, in the form of technical partnership, as the sponsors provide impetus in the form of synergic benefits. Going forward, the management aims to penetrate into untapped segments.

During FY23, Pakistan's Life Insurance sector faced challenges due to an unexpected rise in inflation which led to a decrease in disposable incomes. To adapt, sector players shifted their focus from first-year persistency to second year, prioritizing top-line growth. During the said period, unit-linked products remained attractive, offering fixed-rate investment opportunities amidst high policy rates. The sector's outlook is expected to remain Stable, supported by investment income in the next financial year. However, muted economic growth could adversely impact the sector if not timely mitigated.

The rating takes comfort from the ability of the Company to capitalize on the market share whilst sustaining the performance. Maintaining the surplus in takaful fund and liquidity position is essential. while continuing to focus on improving profitability.

Disclosure

Name of Rated Entity	Pak-Qatar Family Takaful Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology Rating Modifiers(Jun-22),Methodology Life Insurance Rating(Mar-23)
Related Research	Sector Study Life Insurance(Jun-22)
Rating Analysts	Muhammad Noor Ul Haq noorulhaq@pacra.com +92-42-35869504



Profile

Legal Structure Pak-Qatar Family Takaful Limited ("PQFTL" or the "Company") is an unquoted public company.

Background Pak-Qatar Family Takaful Limited (PQFTL) is the first and largest dedicated Family Takaful Company in Pakistan. PQFTL is a progressive and a technology-driven Shari'ah Compliant company providing innovative Takaful solutions since 2007. Incorporated in 2006, and beginning operations in 2007.

Operations The Company's business is categorized under the umbrella of three statutory funds i.e. (i) Individual Family – plans sold through Direct Sales Force and Banka-Takaful as unit linked plans and Decreasing Term Assurance (DTA) as non-linked plans, (ii) Group Family, and (iii) Group Health.

Ownership

Ownership Structure Major ownership of PQFTL is divided amongst Mr. Said Gul and Associates holding ~38.8% stake, followed by H.E. Sheikh Ali Bub Abdullah Al-Thani and Associates (~32%), The technical partner, FWU AG Firm holds ~15.2% stake while the remaining ~13.7% rests with individuals.

Stability The Company's shareholding structure has remained unchanged, contributing to stability and continuity. Additionally, the sponsoring groups of the Company provide further stability, ensuring a strong foundation for its operations.

Business Acumen Two Qatar based financial institutions have shareholding in PQFTL, these are: i) Qatar International Islamic Bank holding ~10% (rated A- by Fitch and Capital Intelligence) & ii) Qatar Islamic Insurance Company holding ~11% (rated BBB+ by A.M. Best).

Financial Strength PQFTL benefits from a valuable partnership with FWU AG through a documented Cooperation Agreement, enhancing its profile. This agreement provides access to customized Banca products, FWU's Sales & Administration System (SIS), and distribution partner acquisition services. FWU maintains a permanent establishment in Pakistan, supporting bank officials with a dedicated sales team of 26 individuals.

Governance

Board Structure PQFTL's board comprises nine members, led by Chairman Mr. H.E. Sheikh Ali Bin Abdullah Al-Thani, a member of the royal family. The board includes non-executive directors, including one female director, and representatives from Mr. Said Gul and FWU. Three board-level committees have been established: Audit, HR & Remuneration, and Investment.

Members' Profile His Excellency Sheikh Ali Bin Abdullah Thani J. Al Thani has been the Chairman of Pak-Qatar Family Takaful since its establishment in 2007. With a strong background in business, he holds prominent positions as the Chairman of Umm-Haish International and Al-Jazeera Trading & Contracting. Sheikh Ali previously served as the Chairman of Qatar International Islamic Bank and holds a economics & political science degree from Portland State University, USA.

Board Effectiveness Board member participation in PQFTL remained strong, facilitated by the efforts of Mr. Said Gul and Mr. Zahid to encourage engagement. Board meetings are held both within and outside Pakistan, taking into account the availability of directors.

Financial Transparency The External Auditors of the Company, Yousaf Adil, Chartered Accountants, issued an unqualified audit opinion pertaining to annual financial statements for CY22.

Management

Organizational Structure The Company's management team consists of skilled and experienced professionals, supported by a well-defined organizational structure. Four key committees - Underwriting, Re-Takaful, Claims, and Risk Management & Compliance - contribute to effective management and decision-making.

Management Team As a founding Member and Director, Mr. Said Gul acts as a bridge between the board and key individuals, including the CEO, Director Finance, CFO, and Chief Internal Auditor. Mr. Azeem Pirani has been reappointed by the board of directors as CEO for next three years term.

Effectiveness Mr. Said Gul has access to an online Management Information System (MIS) for regular updates on the Company's progress. The CEO also has real-time access to comprehensive information. Management meetings are conducted, and minutes are documented to ensure effective communication and decision-making.

Claim Management System Policyholders' claims on the Waqf are recorded in the system upon customer notification. Three standardized claim forms, including the Claimant's Statement, Physician's Statement, and Employer's Statement (for Group Takaful), are required to be completed and signed. The Waqf claims cover Death, Critical Illness, and Disability categories.

Investment Management Function PQFTL has an approved investment policy document, reviewed annually, that covers three separate funds: PTF, PIF, and SHF. The investment strategies for each unit-linked fund within PIF are outlined in the IPS, including BT Growth, BT Conservative, Aggressive, Balanced, Conservative, and Secure Wealth Fund.

Risk Management Framework The Company has a comprehensive underwriting manual that is regularly updated and distributed to branches. Underwriters are assigned authority limits based on their individual qualifications and experience, as approved by the CEO/COO.

Business Risk

Industry Dynamics Life Insurance industry in Pakistan reported at ~PKR 370bln, indicating a notable growth of ~28.5% YoY (CY21: ~PKR 288bln). Life Insurance Industry in Pakistan is dominated by public sector contributing 65.9% of Gross Premiums Written (GPW) during CY22. Net claims increased by ~48.8% to ~PKR 270bln during CY22. Investment income of industry increased by ~22.1% to ~PKR 126bln. Overall, higher GPW and improved investment income resulted in net profitability of ~PKR 17bln for CY22. Takaful industry plays a crucial role in the Islamic financial system, offering a diverse range of risk protection products and services that complement existing options for consumers.

Relative Position PQFTL is the largest Life Takaful Company operating in Pakistan, having ~2.7% market share in Life Insurance Sector. PQFTL is the largest dedicated Takaful Operator.

Persistency The Company has shown a first persistency ratio of ~52% for CY22 (CY21: ~63%) while the subsequent year persistency was at ~77% for CY22 (CY21: ~86%). High inflation which impacted the buying power of consumers was reflected in the drop of the persistency.

Revenue During CY22, the total contribution amounted to ~PKR 10.2bln against ~PKR 9.9bln in CY21, reflecting a YoY growth of ~2.5%. Group policies without cash values were the forte of the Company, generating a total revenue of ~PKR 2,714mln in CY22 against ~PKR 2,172mln in CY21.

Profitability PQFTL recorded a profit after tax of ~PKR 149mln in CY22 reflecting a decline of ~14.9% (CY21: ~PKR 175mln). High acquisition costs remained the key expense for the period. The loss ratio for CY22 increased to ~70.2% from ~63.2% in CY21.

Investment Performance The Company's aggregate investment income in CY22 surged by ~16.7% YoY, reporting to ~PKR 777mln. Notably, ~81.0% of this income was derived from the policyholder's fund, indicating robust performance. The income includes dividends, debt securities, and term deposits & savings accounts.

Sustainability The Company aims for sustained business growth and gradual profitability improvement by focusing on small-ticket policies and targeting the micro-level segment of the industry.

Financial Risk

Claim Efficiency The claims outstanding days have been reduced to 62 days as at CY22 (CY21: 64 days). Net Takaful benefits experienced an increase of ~13.1% YoY basis as at CY22 recorded at ~PKR 7,327mln (CY21: ~PKR 6,476mln).

Re-Insurance PQFTL is strengthened by its Re-Takaful arrangements with Munich Re (AA- by S&P), Hannover Re (AA- by S&P) & Hannover Re-Takaful Catastrophic arrangements providing the company with cushion against unforeseen risks.

Cashflows & Coverages As at CY22 Company had liquid assets of ~PKR 29,129mln (CY21: ~PKR 28,531mln). During CY22, the Liquid Investments to Net Claims coverage clocked in at 4.1 times (CY21: 4.7 times).

Capital Adequacy The Company has a paid-up share capital of ~PKR 1.3bln, well above the Minimum Capital Requirement whereas the total shareholder's equity stood at ~PKR 1,581mln as at period ended Dec'22.



PKR mln

Pak Qatar Family Takaful Limited
Unlisted Public Limited

Dec-22	Dec-21	Dec-20	Dec-19
12M	12M	12M	12M

A BALANCE SHEET

1 Investments	30,266	29,134	27,588	23,346
2 Insurance Related Assets	966	1,199	1,039	879
3 Other Assets	1,202	978	933	1,001
4 Fixed Assets	576	530	570	615
Total Assets	33,009	31,841	30,130	25,841
5 Underwriting Provisions	-	-	-	-
6 Insurance Related Liabilities	1,935	1,871	1,216	859
7 Other Liabilities	28,333	27,518	26,420	22,592
8 Borrowings	224	196	250	323
Total Liabilities	30,492	29,585	27,886	23,774
Equity	2,517	2,257	2,243	2,067

B INCOME STATEMENT

1 Gross Premium Written	10,236	9,986	6,163	6,565
2 Net Insurance Premium	9,772	9,555	7,558	7,861
3 Underwriting Expenses	(9,045)	(8,328)	(6,721)	(6,492)
Underwriting Results	726	1,227	837	1,370
4 Management Expenses	(673)	(560)	(509)	(554)
5 Investment Income	566	211	3,256	2,646
6 Other Income / (Expense)	513	399	393	332
7 Net Change in Reserve for Policyholders' Liabilities	(800)	(1,090)	(3,742)	(3,734)
Profit Before Tax	332	187	235	60
8 Taxes	(36)	(49)	(45)	(29)
Profit After Tax	297	137	190	31

C RATIO ANALYSIS

1 Profitability				
Loss Ratio (Net Insurance Claims / Net Insurance Premium)	73.5%	66.1%	66.4%	61.5%
Combined Ratio (Loss Ratio + Expense Ratio)	99.5%	93.0%	95.7%	89.6%
2 Investment Performance				
Investment Income / Operating Profit	91.4%	24.0%	90.8%	76.4%
3 Liquidity				
(Liquid Assets - Borrowings) / Outstanding Claims	24.42	26.58	33.38	37.87
4 Capital Adequacy				
Liquid Investments / Equity	11.57	12.64	12.13	11.12

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 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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Rating Team Statements

(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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- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

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 | Clause 11-(A)(p).
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (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)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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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)

Monitoring and review

- (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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