



The Pakistan Credit Rating Agency Limited

PAK QATAR GENERAL TALAFUL LIMITED (PQTL)

RATING REPORT

| | NEW [SEP-17] | PREVIOUS [FEB-17] |
|---|-------------------------|------------------------------|
| Insurer Financial Strength (IFS) Rating | A | A |
| Outlook | Stable | Stable |

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SEPTEMBER 2017

Profile & Ownership

- Pak-Qatar General Takaful Limited (PQTL) started operations in 2007
- H.E. Sheikh Ali bin Abdullah Al-Thani – member of Qatar's Royal Family – is the significant shareholder with 54% stake in PQTL; majorly through Qatar state owned financial institutions
- Mr. Said Gul – other major sponsor – has 37% stake
- These sponsors also own majority stake in Pak-Qatar Family Takaful

Governance and Management

- A seven-member board; chaired by H.E. Sheikh al-Thani
- Majority of board members are executives of sponsoring financial institutions and associated with the company since inception
- Mr. Said Gul is Managing Director, a Qatar based Entrepreneur, though Pakistani national
- Mr. Zahid Hussain is CEO; joined PQTL in April 2017
- The management team comprises experienced professionals

Business Risk

- During 1HFY17, GPW portfolio dominated by motor segment (63%), followed by fire (21%), marine (9%) and miscellaneous (8%)
- The company holds market share of ~1% at end-Jun17
- The company completely shed off health portfolio (CY16: nil, CY15: PKR 4mln, CY14: PKR 290mln); part of strategy to avert huge losses
- Motor segment declined by 13% YoY facing tough competition from window takaful, lately allowed to conventional insurers
- During 1HFY17, Non-motor segments witnessed growth of 25% only primarily driven by marine
- Loss ratio deteriorated to 60% (CY16: 53%) mainly driven by motor and fire segment
- Consolidated underwriting profit stood at PKR 9mln for 1HCY17 (PTF: surplus PKR 4mln, SHF: loss PKR 15mln), as compared to loss of PKR 12mln for CY16
- Combined ratio clocked in at 102%, however, adjusted with health, improves to 99%
- Stable stream of investment income, mostly from bank deposits and government securities, enabling a strong operating ratio

Business Strategy

- Going forward, PQTL envisages prudent growth strategy
- Bottom-line centric approach to continue, improving profitability
- Continued focus on rationalizing segment mix with focus on non-motor
- Envisages tapping non-conventional avenues; capitalizing sales network; Product innovation also on cards; Bank enlistments
- Window takaful by conventional insurers will continue posing challenge

Financial Risk

- Liquid investments (end-Jun17: PKR 439mln) represents 81% of its equity base; Liquidity position (end-Jun17: ~2x, end-Dec16: 2.3x) witnessed marginal decline though remained adequate to provide cushion to gross outstanding claims
- Compliant with SECP's requirements for solvency at end-Dec16 with a margin of PKR 38mln
- Increase in premium receivable days (1HCY17: 207 days, CY16: 159, CY15: 120) due to more business written in 2Q; however aging analysis showing comfortable results
- Claim outstanding days also witnessed significant increase (1HCY17: 268 days, CY16: 183) due to 36% increase in outstanding claims

RATING RATIONALE

PakQatar - being an early entrant in Islamic insurance (takaful); both general and life - has achieved good brand recognition. The rating reflects adequate risk absorption capacity – strengthened by capital injections in the past – of the company. However, in more recent years intense competition has resulted in reduced profitability which warrants management attention. Furthermore, the management follows a conservative stance (high liquidity, low risk philosophy) for its investment book. Hence, stable, though relatively low, investment income supplements profits. The management need to continue its efforts to fortify business profile in the wake of intensive competition from window takaful. The business plan is gradual penetration into non-motor avenues, after shedding off health to group's family takaful company. Recent engagements in the top management, having exposure to the insurance industry, has benefitted PQTL. The ratings incorporates the effect of association of the company with Qatar-based investors.

KEY RATING DRIVERS

The rating is dependent on the management's ability to cohesively execute the business plan. Furthermore, improvement in market share and underwriting profitability are considered vital. Meanwhile, prudent management of premium receivables from corporate customers is essential. Also, implementation of real time IT infrastructure along with recently upgraded MIS should, among others, strengthen the claims management system.

INDUSTRY

Pakistan's general insurance has witnessed continuous growth (CAGR 4 years 12%). While conventional segments of fire and motor growth has been driven by private sector credit off take by the banks, the miscellaneous segment has seen largest growth in non-conventional avenues; health, crop, livestock, etc. The industry is exploring various untapped avenues, while upgrading its operating platform.

PakQatar General Takaful Limited (PQTL)

| | <i>PKR mln</i> | | | |
|---|------------------|------------------|------------------|------------------|
| BALANCE SHEET* | 30-Jun-17 | 31-Dec-16 | 31-Dec-15 | 31-Dec-14 |
| | 1H | Annual | Annual | Annual |
| Investments | | | | |
| Liquid Investments | 439 | 392 | 484 | 443 |
| Insurance Related Assets | 425 | 397 | 263 | 477 |
| Other Assets | 184 | 245 | 156 | 196 |
| TOTAL ASSETS | 1,048 | 1,034 | 903 | 1,115 |
| Equity (SHF) | 544 | 539 | 536 | 471 |
| Waqf / Participants' Takaful Fund (PTF) | (123) | (127) | (139) | (147) |
| Underwriting Provisions | 190 | 252 | 233 | 318 |
| Insurance Related Liabilities | 349 | 272 | 210 | 343 |
| Other Liabilities | 88 | 98 | 63 | 131 |
| TOTAL EQUITY & LIABILITIES | 1,048 | 1,034 | 903 | 1,115 |
| Profit and Loss Account (Participants' Takaful Fund / PTF) | 30-Jun-17 | 31-Dec-16 | 31-Dec-14 | 31-Dec-14 |
| Gross Contribution Written (GPW) | 243 | 653 | 702 | 1,002 |
| Net Contribution Revenue | 82 | 218 | 376 | 506 |
| Net Claims | (106) | (249) | (408) | (543) |
| Net (Expenses) / Income | 28 | 39 | 32 | 43 |
| Net Investment Income | 0 | 1 | 9 | 7 |
| Surplus / (Deficit) before Investment Income | 5 | 9 | 9 | 6 |
| Profit and Loss Account (Shareholders' Fund / SHF) | 30-Jun-17 | 31-Dec-16 | 31-Dec-14 | 31-Dec-14 |
| Wakala Income | 95 | 256 | 272 | 345 |
| Commission & Operational Expenses | (108) | (275) | (295) | (350) |
| Investment Income | 18 | 23 | 27 | 37 |
| Profit Before Tax | 4 | 4 | 3 | 32 |
| RATIO ANALYSIS* | 30-Jun-17 | 31-Dec-16 | 31-Dec-14 | 31-Dec-14 |
| Underwriting Results | | | | |
| Loss Ratio | 60% | 53% | 63% | 64% |
| Expense Ratio | 74% | 57% | 62% | 55% |
| Combined Ratio | 134% | 109% | 125% | 118% |
| Performance | | | | |
| Operating Ratio | 123% | 105% | 119% | 116% |
| Investment Yield (SHF + PTF) | 7% | 7% | 7% | 5% |
| Liquidity & Solvency | | | | |
| Liquidity Ratio – times | 1.9 | 2.3 | 4.7 | 1.9 |

* based on consolidated figures (SHF + PTF)

SHF: Shareholders' Fund

PTF: Participants' Takaful Fund

PakQatar General Takaful Limited (PQTL)

September 2017

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RATING SYMBOLS & DEFINITIONS:

**INSURER FINANCIAL STRENGTH (IFS)
RATING SCALE & DEFINITIONS**

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

| RATING 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- | Moderately Weak. Moderately weak with an uncertain capacity to meet policyholder and contract obligations. Though positive factors are present, overall risk factors are high, and the impact of any adverse business and economic factors is expected to be significant. |
| B+ B B- | 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. |
| CCC CC C | 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. |
| 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. |

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'.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. 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 Outlook of the respective opinion.

Suspension
It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future, but may stay in abeyance for long. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, or c) the rating remains suspended for six months.

Disclaimer: PACRA's IFS rating does not constitute any form of guarantee of the ability of the insurance company to meet policyholders' obligations; nor does it constitute a recommendation to effect or discontinue any policy of insurance. PACRA's rating is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

