January 30, 2015

Takaful Pakistan Limited

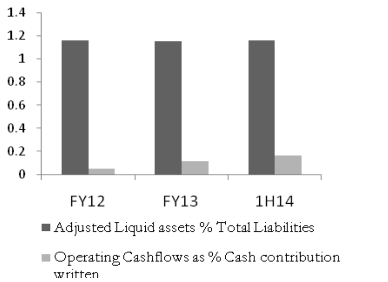
Chairman: Mr. Saeed Khan & CEO: Mr. Syed Arif Hussain

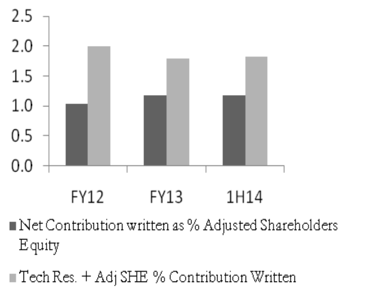
Analysts: Talha Iqbal
Mohammad Arsal Ayub

Category	**Latest**	**Previous**
Takaful Financial Strength	**BBB+** Dec19 '14	**BBB+** Dec 16, '13
Outlook	***Stable***	***N/A ****

**under Rating Watch-Developing Status*

Key Financial Trends





(In Rs. M)	**FY12**	**FY13**	**1H14**
Gross Contribution	212	221	119
Market Share	0.4%	0.4%	-
Net Contribution	151	175	91
Net Claims ratio	52%	58%	47%
Combined ratio	117%	121%	104%
Net Profit / (Loss)	(0.9)	(13.2)	9.0
Equity SHF	141	157	163
Operating Leverage	93%	108%	109%
Financial Leverage	95%	103%	106%
Insurance debt % Gross Contribution	14.8%	13.0%	11.2%

Rating Rationale

Capitalization indicators of Takaful Pakistan Limited (TPL) have benefited in the ongoing year to some extent on account of transfer of amount held as collateral reserve to the tune of Rs. 41.8m and recorded as liability earlier to Participants Takaful Fund (PTF). However, given that overall capitalization indicators still remain constrained, external support may be required to improve the risk profile of the institution. Sponsors are considering equity injection in the on-going year, which should translate into an improved risk profile for the entity.

Liquidity profile of the company is considered adequate in view of sizeable liquid cushion (liquid assets in relation to liabilities), positive operating cash flows and manageable level of insurance debt. TPL has a number of ongoing litigations; adverse developments with regards to the same may lead to impairment in liquidity carried on books. However, the sponsors have agreed to provide support in case the outcome of these cases is not in TPL's favor.

Re-takaful panel of the company has undergone some changes in FY14. Best Re is no longer on the re-takaful panel while Africa Re has been added to the panel. Maximum retention on net account is Rs. 2m for fire, marine and engineering segments while retention in motor and accident and bond business is limited to Rs. 0.5m and Rs. 0.45m, respectively. Given that the whole account XoL treaty allows for limited reinstatements, claims on net account can be higher in case of multiple claims. No reinsurance cover is in place for health and terrorism business. These two segments represent one-fifth of company's gross contributions. Given the high benefits ratio in health business alongwith sizeable sum assured in case of terrorism business (Rs. 235m), risk emanating from the same is sizeable. As per management, benefits ratio for terrorism business has remained favorable given that most of these risks are located in industrial areas that are less prone to terrorist activities.

Subsequent to below average growth showcased in FY13, gross premiums have picked up in the ongoing year and stood at Rs. 247m as at end-November 2014. The growth has primarily emanated from motor segment which accounts for over half of gross contributions; other major contributors to business volumes included fire and health segments. With the decision to allow conventional insurance operators to open takaful windows, existing takaful providers may face significant competition from established players in the general insurance industry, going forward.

Underwriting profitability of the company continued to remain under pressure in 2013. Improvement has been witnessed during 1H14 with a decline in underwriting losses on the back of lower benefits ratio in the motor segment which constitutes sizeable proportion of net contribution revenue. Benefits ratio in the health segment continues to remain on the higher side (around 100%); in part attributable to lower pricing policy adopted by the company. Changes in pricing policy are planned, going forward, to improve underwriting profitability.

Dr. Syed Arif Hussain holds the position of CEO since October 2013. There have been a number of changes at senior management level during 2014; these mainly relate to re-designation of a number of internal staff members whilst there has also been one fresh hiring. Internal audit for 2014 has been outsourced to M/s Muniff Ziauddin Junaidy & Co. Internal audit was last conducted in 2011. Further strengthening of the Information Technology infrastructure is also being undertaken which is expected to be completed in 2015.

Overview of the Institution

TPL was incorporated in 2006 and commenced its operations in 2007. Financial statements for 2012 were audited by M/s M.Yousuf Adil Saleem & Company, who have been reappointed as external auditors for 2014. Internal audit of the company was last conducted by Ernst & Young in 2011. The company has out-sourced internal audit activities to M/s KPMG for 2013 JCR-VIS

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
		RATING TYPE: IFS		
19-Dec-14	BBB+	Stable		Reaffirmed
16-Dec-13	BBB+	Rating Watch - Developing		Reaffirmed
03-Sep-12	BBB+			Rating Watch - Developing
31-May-11	BBB+	Stable		Reaffirmed
19-Apr-10	BBB+	Stable		Downgrade
18-Dec-09	A-	Negative		Maintained