RATING REPORT

Takaful Pakistan Limited

REPORT DATE:
December 28, 2015

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	**Long-term**	**Long-term**
IFS	BBB+	BBB+
Rating Date	*Dec 23, '15*	*Dec 19, '14*
Rating Outlook	Stable	Stable
Outlook Date	*Dec 23, '15*	*Dec 19, '14*

COMPANY INFORMATION

Incorporated in 2006	**External auditors:** M. Yousuf Adil Saleem & Co., Chartered Accountants
Public Limited Company	**Chairman of the Board:** Tahir Naz Siddiqui
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Dr. Syed Arif Hussain
House Building Finance Company – 29.0%	
Al-Buhaira National Insurance Company – 17.0%	
Al-Baraka Bank (Pakistan) Limited – 17.0%	
Sitara Chemical Industries Limited – 10.0%	
Arif Habib Corporation Limited – 10.0%	
Mal Al Khaleej Investments LLC – 8.5%	
Emirates Investment Group – 6.7%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS General Takaful Rating Criteria *http://jcrvis.com.pk/Images/takaful.pdf*

Takaful Pakistan Limited

OVERVIEW OF THE INSTITUTION

Takaful Pakistan Limited (TPL) was incorporated in June 2006 as an unlisted public limited company. The company is primarily involved in carrying out general takaful business, as specified under Insurance Ordinance 2000, Insurance Rules 2002 and Takaful Rules, 2012 (TR 2012).

RATING RATIONALE

Business volumes of Takaful Pakistan Limited (TPL) depicted notable growth in FY14. Largest contribution to the business mix emanated from the motor segment followed by health. Share of motor business vis-à-vis non-motor business grew significantly during the outgoing year while proportion of health segment in overall business mix declined slightly to 18.8% (FY13: 19.1%). Going forward, management envisages diverting share of motor and health business toward fire and marine on account of lower claims risk associated with the latter. Effective implementation of the said strategy while maintaining business growth remains to be seen.

Adjusted equity of the company enhanced to Rs. 171.2m (FY14: Rs. 153.6m) as at end-9M15. Due to higher profitability, accumulated losses declined to Rs. 110.4m (FY14: Rs. 136.9m) by end-9M15. With regards to equity injection announced in preceding year, management is in process of increasing paid up capital in two phases, from Rs. 300m to Rs. 400m and then to Rs. 500m. Apart from improving liquidity position, the additional capital will enable TPL to comfortably maintain its solvency margin above the minimum level prescribed by the regulator.

TPL has a total of 5 reinsurers in its re-takaful panel with Labuan-Re as lead operator in all major segments. For 2015, there were two changes on the panel with Saudi Re and Tunis Re replacing Malaysia-based MNRB; share of Labuan Re increased to 50.0% while that of Pak Re reduced to 32.0%. No reinsurance cover is in place for health and terrorism business.

The company reported SHF profit of Rs. 8.6m (FY13: Rs. 15.5m) for FY14. Decline in profitability was largely manifested in decrease of investment income. Overall underwriting loss decreased to Rs. 26.1m (FY13: 36.2m) mainly on account of notable reduction in underwriting losses pertaining to health business. Motor business continued to remain profitable vis-à-vis non motor segments, with positive underwriting result of Rs. 3.0m. This was largely due to considerably higher business booked by the segment along with controlled net claim expense. During 9M15, TPL posted overall underwriting loss of Rs. 7.1m led by sizeable year-on-year growth in underwriting profits pertaining to motor segment; underwriting results may improve going forward given that management is successful in increasing share of fire and marine business.

TPL has an investment portfolio with more than two-thirds of its exposure in term deposit receipts while remaining is deployed in mutual funds and debt instruments at end-September 2015. In recent years, the portfolio has generated steady stream of income and supported the bottom line of the company. Investment function of the company is managed by CFO.

Liquid assets in relation to total liabilities stood at 71.8% (FY14: 78.4%; FY13: 90.3%) at end-9M15. Operating cash inflow (adjusted for investment income) was higher at Rs. 61.5m (FY14: Rs. 14.6m) at end-September 2015. Barring sukuk exposure, the company has maintained a conservative investment profile with around 73% of the investment portfolio comprising TDRs placed with banks rated 'A' and above. Market risk emanating from the portfolio is considered manageable.

Takaful Pakistan Limited — Appendix I

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**SEP 30, 2015**	**DEC 31, 2014**	**DEC 31, 2013**
Cash and Bank Deposits	305.9	287.3	282.0
Investments	74.2	31.7	25.3
Investment Properties	0.0	0.0	0.0
Insurance Debt	53.3	40.5	29.4
Total Assets	685.6	577.2	519.2
Net Worth	170.4	151.9	157.0
Total Liabilities	515.2	425.3	357.1
INCOME STATEMENT			
Net Premium Revenue	200.5	169.4	175.3
Net Claims	108.8	94.0	101.8
Underwriting Profit (Loss)	(7.1)	(26.1)	(36.2)
Net Investment Income	16.6	16.3	20.0
Profit (Loss) Before Tax	20.9	(5.3)	(11.0)
Profit (Loss) After Tax	18.5	(7.6)	(13.2)
RATIO ANALYSIS			
Market Share (Gross Premium) (%)	N/A	0.50%	0.45%
Cession Ratio (%)	14%	24%	22%
Gross Claims Ratio (%)	50%	65%	65%
Net Claims Ratio (%)	54%	55%	58%
Underwriting Expense Ratio (%)	40%	67%	63%
Combined Ratio (%)	94%	122%	121%
Net Operating Ratio (%)	85%	106%	108%
Insurance Debt to Gross Premium (%)	20%	15%	13%
Operating Leverage (%)	169%	166%	140%
Financial Leverage (%)	172%	144%	120%
Adjusted Liquid Assets to Technical Reserves (%)	137%	137%	170%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

JCR-VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: INSURER FINANCIAL STRENGTH

AAA
Highest capacity to meet policyholder and contract obligations; Risk factors are negligible.

AA+, AA, AA-
Very high capacity to meet policyholder and contract obligations; However, risk is modest, but may vary slightly over time due to business/economic conditions.

A+, A, A-
High capacity to meet policyholder and contract obligations; Risk factors may vary over time due to business/economic conditions.

BBB+, BBB, BBB-
Adequate capacity to meet policyholder and contract obligations; Risk factors are considered variable over time due to business/economic conditions.

BB+, BB, BB-
Marginal capacity to meet policyholder and contract obligations; Risk factors may vary widely with changes in business/economic conditions.

B+, B, B-
Low capacity to meet policyholder and contract obligations; Risk factors are capable of fluctuating widely with changes in business/economic conditions.

CCC
Very low capacity to meet policyholder and contract obligations; Risk may be substantial.

CC
Weak capacity to meet policyholder and contract obligations; Risk may be high.

C
Very weak capacity to meet policyholder and contract obligations; Risk may be very high

D
Extremely weak capacity to meet policyholder and contract obligations; Risk is extremely high.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

REGULATORY DISCLOSURES Appendix III

Name of Rated Entity	Takaful Pakistan Limited
Sector	Insurance
Type of Relationship	Solicited
Purpose of Rating	Insurer Financial Strength Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: INSURER FINANCIAL STRENGTH				
12/28/2015	BBB+	-	Stable	Reaffirmed
12/19/2014	BBB+	-	Stable	Rating Watch Removed
12/16/2013	BBB+	-	Rating Watch - Developing	Reaffirmed
9/3/2012	BBB+	-	-	Rating Watch – Developing
5/31/2011	BBB+	-	Stable	Reaffirmed

Instrument Structure	N/A
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
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