Pak Qatar General Takaful Limited

Chairman: H.E. Sheikh Ali Bin Abdullah Al-Thani; Chief Executive Officer: Mr. Said Gul

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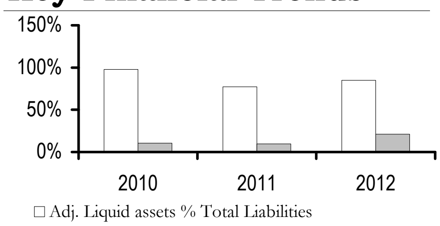
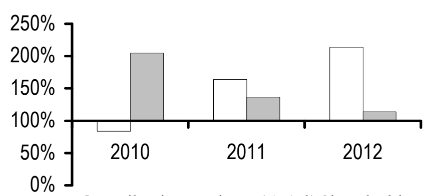
Category	**Latest**	**Previous**
IFS	**A-** *Jun 19, '13*	**BBB+** *Nov 29, '12*
Outlook	***Stable*** *Jun 19, '13*	***Positive*** *Nov 29, '12*

Key Financial Trends





(In Rs.m)	2010	2011	2012
Gross Contributions	217.2	330.5	549
Market Share	0.5%	0.7%	-
Net Contributions	161.7	203.5	323.3
Net Claims ratio	86%	66.7%	59.9%
Combined ratio	166%	126%	105%
Net Profit / (Loss)	(67)	(14.3)	11.4
*Adjusted Equity	186	156.9	202
Operating Leverage	84%	164%	214%
Financial Leverage	71%	124%	144%
Insurance debt % Gross Premium	20%	24.4%	22.7%

Rating Rationale

Pak Qatar General Takaful Limited (PQGTL) is owned by reputable financial institutions based in Qatar. PQGTL had an adjusted equity of Rs. 229.5m (FY12: Rs. 202; FY11: Rs. 156.9m) at the end of 1Q2013. The company arrested the declining trend in its equity base on the back of equity injection during FY12 while profitability generation has also commenced. Out of Rs. 100m approved plan for capital injection by sponsors during FY12, Rs. 33.7m has been injected to date while Rs. 66.3m is expected to be received shortly. Despite capital injection, aggressive business growth continues to exert stress on leverage indicators. Improvement in internal capital generation is required to maintain the risk profile of the institution while pursuing its growth targets.

For FY13, there were two changes on the retakaful panel as Al Fajer Re and Saudi Re (both rated BBB+) replaced ACR Re (rated A-) and Hannover Re (rated AA-). The lead re-takaful operator continues to be Best Re (rated A-). With large reinsurers/re-takaful operators gradually exiting or being more cautious in the Pakistani market, it is becoming increasingly difficult for smaller players to retain quality re-insurers on their panels. This situation is particularly challenging for takaful operators. Presently, the panel has only two retakaful operators in the 'A' band. During FY13, change in terms was observed in fire segment, where retention was enhanced. PQGTL is yet to acquire reinsurance cover in health and terrorism.

Liquidity profile of the company improved with total adjusted liquid assets representing 85.2% (FY11: 77.4%) of total liabilities in FY12. Insurance debt is also within manageable limits comprising 22.7% (FY11: 24.4%) of gross contributions, though there has been some increase in the same during 1Q13. The company has depicted satisfactory performance in payments as only 2.1% of claims were outstanding for more than 2 years. Investment portfolio grew as additional funding available after equity injection was diverted towards it. Keeping a conservative approach, investment policy largely entails exposure in government securities. Although credit risk on such investment remains minimal, the current declining markup rate scenario may have a negative impact on investment yield, going forward. Liquidity profile and investment income is likely to receive support from the planned equity injection in the on-going year.

There was considerable growth in business volumes with gross contribution amounting to Rs. 549.2m (FY11: Rs. 330.5m) in FY12 and Rs. 1.08b (annualized) in 1Q13. While motor segment still comprises major proportion of business mix, its share has reduced with the introduction of health segment during FY12. The management has set forth aggressive targets to achieve gross contribution of up to Rs. 1b for FY13. The growth model is primarily focused towards motor and health, which together are expected to constitute around 70% of total business; both these segments have generally low underwriting margins. In FY12, the net claims ratio depicted improvement on account of better performance in motor segment. Moreover, improvement in expense ratio was witnessed as a result of business growth. Combined ratio however remains in excess of 100%. Going forward, containing losses in motor & health will be critical for achieving underwriting profitability. Focus on other lines of business may be required for improvement in risk profile of business mix. Accounting for investment income, PQGTL reported an aggregate net profit (PTF & SHF combined) of Rs. 11.4m in FY12 as compared to a loss of Rs. 14.3m in the preceding year.

There was one major change in management with the induction of country head sales who is currently focusing on development of health business. PQGTL is migrating to an internally developed system from the current one developed by Pentasoft on account of high maintenance cost. The shift is expected to be completed by end FY13.
**Includes balance of PTF and SHF*

Overview of the Institution

PQGTL was incorporated in March 2006 as an unquoted public limited company. The company is engaged in general takaful business and operates with 10 branches. Its shareholding is largely held by Qatar based financial institutions. The external auditors for 2013 are audited by M/s Deloitte Touche Tohmatsu Limited M. Yousuf Adil Saleem & Co. JCR-VIS

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
		RATING TYPE: IFS		
19-Jun-13	A-	Stable		Upgrade
29-Nov-12	BBB+	Positive		Maintained
14-Dec-11	BBB+	Stable		Reaffirmed
12-Oct-10	BBB+	Stable		Maintained