FINAL REPORT

Pak-Qatar General Takaful Limited

REPORT DATE:
March 01, 2022

RATING ANALYSTS:
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RATING DETAILS		
	Latest Rating	**Previous Rating**
Rating Category	**Long-term**	**Long-term**
Insurer Financial Strength	A-	A-
Rating Date	*March 01, 2022*	*January 22, 2021*
Rating Outlook	Stable	Stable
Outlook Date	*March 01, 2022*	*January 22, 2021*

COMPANY INFORMATION	
Incorporated in 2006	**External auditors:** M/s Ernst & Young Ford Rhodes Chartered Accountants
Public unlisted Company	**Chairman of the Board:** Sheikh Ali Bin Abdullah Thani J. Al-Thani
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Zahid Hussein Awan
Pak Qatar Investment (Private) Limited – 42.5%	
Sheikh Ali Bin Abdullah – 15.7%	
Qatar International Islamic Bank – 14.5%	
Qatar Islamic Insurance Company – 11.6%	
Fawad Yusuf Securities – 6.0%	

APPLICABLE METHODOLOGY(IES)
VIS IFS Rating Criteria: Takaful Companies, June 2019
https://docs.vis.com.pk/docs/MethTakaful201906.pdf

Pak-Qatar General Takaful Limited

OVERVIEW OF THE INSTITUTION

PQGTL was incorporated in March 2006 as an unquoted public limited Company. The Company is engaged in general takaful business. The financial statements for 2018 are audited by M/s Ernst & Young Ford Rhodes Chartered Accountants

Profile of Chairman:

A member of the Royal Family, Sheikh Ali is a prominent businessman in Qatar. By qualification, he is Bachelor of Science in Political Science from Portland State University, USA. Currently, he is the Chairman of Umm-Haish International, and Al-Jazeera Trading & Contracting. Earlier, he was the Chairman of Qatar International Islamic Bank.

Profile of CEO:

Mr. Zahid Hussain Awan has been associated with Pak-Qatar General Takaful as director since its inception. Mr. Zahid possesses rich professional experience of over 36 years in Banking Industry. He initially gained experience of Banking mainly from GCC countries and worked for almost 10 years in international banking. Later in 1990, he joined Qatar International Islamic Bank (QIIB) where he looked after the Treasury, Corresponding Banking, BancaTakaful and Products & Services development.

Mr. Zahid is a graduate of Punjab University.

RATING RATIONALE

Pak Qatar General Takaful Limited ('PQGTL' or 'the Company') is one of two companies in the domestic industry, offering exclusively takaful products. In addition to these two companies, takaful products are also offered by insurance companies, through Window Takaful Operations. PQGTL is a small-sized player in terms of the overall insurance market, as reflected by its market share of 0.7% for 2020 (2019: 0.8%) in the private sector non-life insurance industry. Market share in the takaful segment stood at 4.8% for 2020 (2019: 6.0%).

The Company operates through a network of 9 branches, spread over 9 different cities in Pakistan. In addition, the Company also utilizes the distribution network of its family takaful associate company to enhance outreach to cities, wherein the Company does not have any presence.

Insurance Sector Update

Table 1: Insurance Industry Financial Indicators (Source: IAP)

(Rs. in Billions)	2019	2020	9M'2021
Insurance Premium (Gross)	83.7	89.6	76.8
Takaful Contributions (Gross)	11.0	12.6	12.0
Industry Total (Gross)	94.6	102.3	88.8
Combined Ratio	89.1%	95.3%	90.8%
- Net Claims Ratio	51.7%	54.8%	52.6%
- Underwriting Expense Ratio	37.4%	40.5%	38.2%
Net Operating Ratio	72.5%	78.6%	69.2%
RoAA	4.7%	4.4%	5.3%*
RoAE	10.5%	10.1%	13.1%*
Operating Leverage	49.6%	52.5%	55.6%*

* Annualized

- Growth in insurance industry premiums stood lower at 8% in 2020 vis-à-vis 10% in the preceding year. Historically, growth in the insurance premiums has been reported at more than 2x of the GDP growth. However, in last 5 year period, this has dropped. Future industry growth is likely to pick pace as the ruling government enters its final 2 years, wherein historically it has been noted that infrastructure projects are ramped up. Nevertheless, industry experts remain conservative in their projections, maintaining the same within the single digit domain and close to the GDP growth projection of ~5%.
- Gross underwriting depicted growth of 19% in 9M'2021 vis-à-vis SPLY, which is mainly attributable to a low base effect, caused by the pandemic-induced slowdown in 9M'2020.
- Non-life insurance penetration, estimated at ~0.2%, remains notably lower than regional peers.
- Given the meagre growth in premiums, the industry's combined ratio posted an uptick, which was driven by an uptick in both net claims and expense ratios.
- The investment performance remained strong during the period, with overall investment income posting an uptick of 13%.
- The sector's operating leverage remains around ~50%, which is considered to be on the lower side and there is certainly room for additional insurance penetration in the domestic market.
- Overall capitalization & liquidity buffers in place are considered to be adequate. Industry capitalization & liquidity are expected to persist.
- The implementation of IFRS 17 has been further postponed to January 1' 2023. The SECP has issued instructions of phase-wise implementation of IFRS 17, as per which the insurance companies have been instructed to submit a gap analysis with SECP by end-September'2021. So far, an estimate of related provisioning impact on the industry is yet to be ascertained.

Business Review: PQGTL

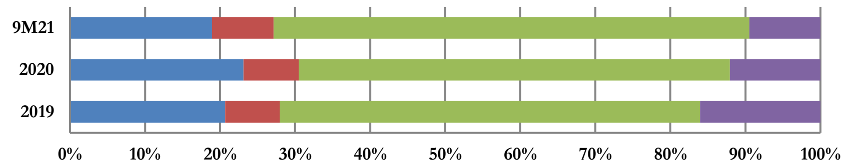
<u>Business Mix</u>

Table 2: PQGTL Market Share (Source: IAP)

(Rs. in Billions)	2019	2020	9M'2021
Market Share (Private Sector)	0.8%	0.7%	0.8%
Market Share (Takaful)	6.0%	4.8%	5.4%

- PQGTL's gross underwriting depicted contraction of 14% in 2020, as a result of which the Company experienced some attrition in market share. The trend of market share attrition was aligned with most industry participants, as growth entirely emanated from a single player that successfully underwrote a public sector exposure; as performance across the board remained flat for most industry participants, they resultantly lost market share.
- In 9M'2021, in tandem with the market, the Company posted strong relative growth, with gross underwriting being 49% higher than SPLY, exceeding industry growth of 19% and gaining market share as a result.

Figure 1: Gross Contribution (Figures in PKR' Millions)



	2019	2020	9M21
Fire	144.9	139.2	122.1
Marine	50.8	44.4	52.6
Motor	393.0	345.6	408.7
Misc	112.4	72.7	61.0

- In terms of business segments, the contraction in underwriting incurred in 2020 was across all lines of business. As a result, we have not noted any material change in business mix in 2020 or 9M'2021, as also illustrated in the figure above.
- The Company has recently initiated underwriting in the Health segment, which was ceased back in 2015 on account of adverse loss ratios. Nevertheless, given appointment of resources with significant experience in the segment and in an effort make the product offering more complete, the management has re-entered this segment. The management on boarded a few sizable clients in Q4'2021, with Health segment underwriting coming in at Rs. 175m for Q4'2021.

Table 3: Gross Claims Ratio (Segment-wise)

	2019	2020	9M'2021
Gross Claims Ratio	51.5%	46.0%	45.3%
- Fire	51.9%	35.1%	36.3%
- Marine	41.0%	34.4%	34.8%
- Motor	54.4%	59.0%	51.8%
- Miscellaneous	45.4%	12.6%	28.2%

- Loss performance depicted improvement in 2020, on the back better performance of Fire & Miscellaneous segments. The loss ratios remain contained in 9M'2021, albeit the ratio is likely to increase in Q4'2021, given addition of Health segment to the business mix.
- Starting 2022, the management has restructured its operations on the basis of gaining 8% market share annually. It has targeted to reach Rs. 2b in 3 years' time.
- In view of the aforementioned Health segment growth, underwriting growth for 2021 is likely to persist on the higher side, as a result the Company will likely gain market share in Q4'2021. Nevertheless, projected growth momentum is around 8%, which is considered modest. As per management, the Company's underwriting strategy will focus on profitable business generation and sustainable growth.

Profitability

Table 4: Income Statement (Consolidates PTF and SHF)

In PKR' Millions	2019	2020	9M'2021
Net Contribution (incl. Wakala Fee)	477.3	426.5	431.8
Net Claims	(251.6)	(197.1)	(204.1)
Net Claims Ratio	*52.7%*	*46.2%*	*47.3%*
Net Commission Income / (Expense)	(11.5)	(26.1)	(22.2)
Acquisition Income / (Cost)	*-2.4%*	*-6.1%*	*-5.2%*
Underwriting Expense	217.8	205.4	161.1
Underwriting Expense Ratio	*45.6%*	*48.1%*	*37.3%*
Underwriting Profit/ (Loss)	(3.61)	(1.99)	44.3
Combined Ratio	*100.8%*	*100.5%*	*89.7%*
Recurring Investment Income	14.8	33.2	38.6
Net Operating Ratio	*97.6%*	*92.7%*	*80.8%*
Other Expenses	(5.6)	(6.6)	(2.6)
Other Income	6.8	4.4	-
Profit Before Tax	31.5	43.4	74.4
Profit After Tax	23.8	45.5	67.3

- The Company's underwriting profitability remained under stress in 2020, despite a notable improvement in net claims ratio, as illustrated in the table above. The combined ratio remained elevate, mainly as underwriting expense ratio was higher given contraction in net contribution as well as higher acquisition cost.
- In 9M'2021, the underwriting operations have picked up pace, with net contributions being 40% higher than SPLY. Furthermore, the Company also initiated underwriting in the Health segment in Q4'2021, wherein sizable growth has been noted. Accordingly, net contribution is likely to be notably higher in 2021. Nevertheless, underwriting in the health segment will certainly affect loss performance, since health segment tends to have an adverse impact on loss ratios. Taking changes in business mix and strong revenue growth into consideration, the loss ratio may likely increase, while combined ratio is likely to be better mainly as higher revenues base translates in lower underwriting expense ratio. The management expect combined ratio for 2021 in the range of 90-92%, notably better than past 2-year period.
- The Company's investment performance depicted improvement in 2020, in tandem with equity market.
    - Changes have been noted in the investment portfolio composition. The management has increased exposure to equities market, while cash on balance sheet stood on the higher side as of September' 2021.
    - Yield on the portfolio (aggregate & calculated on two-point average) was reported higher at 8.5% for 2020 (2018: 5.9%). In 9M20, the annualized yield on the investment portfolio came in at 6.7%.
    - Incorporating the same, the Company's net operating ratio depicted notable improved in 2020, a trend which is likely to continue for full year 2021.

Table 5: Investment Portfolio

In PKR' Millions	Dec'19	Dec'20	Sep'21	Dec'19	Dec'20	Sep'21
Equity Securities (Mutual Funds)	154.5	248.6	311.1	25.9%	35.3%	37.5%
Debt Securities	195.8	282.6	263.6	32.8%	40.1%	31.8%
Cash & Bank	247.2	173.7	255.5	41.4%	24.6%	30.8%
	597.5	704.8	830.2			

Liquidity & Capitalization

- The Company's liquidity profile remains strong, as investment portfolio is entirely composed of liquid assets, which provide comfortable coverage and cushion over net technical reserves.

In PKR' Millions, unless stated otherwise	Dec'19	Dec'20	Sep'21
Liquid Assets	597.5	704.8	830.2
Liquid Assets to Net Technical Reserves	2.3x	2.9x	2.7x
OCF to Gross Contribution	12.3%	18.5%	NA
Insurance Debt to Gross Premium	30.2%	27.2%	22.5%*
Equity	458.7	505.2	577.2
Operating Leverage	104.1%	84.4%	99.5%*
Financial Leverage	56.2%	48.1%	54.1%

*Annualized

- The insurance debt to gross contribution is considered manageable and comparable to peers.
- The Company's equity base posted growth, mainly on account of internal cash generation. As per management, there may be a small dividend payout in the short to medium-term horizon, as there has been a only a single payout since inception, which happened in 2018. Nevertheless, dividend policy will remain tied to the Company's profitability and capitalization requirements.
- The operating leverage has varied during the period under review, given contribution contraction in 2020 and subsequent recovery in 2021. Both operating and financial leverage remain range-bound and comparable to peers.

Key Rating Drivers - PQGTL

Rating incorporates the Company's sponsor profile

Rating of the Company derives strength from the shareholding pattern of the Company, which includes prominent Qatar-based financial institutions, such as Qatar International Islamic Bank and Qatar Islamic Insurance Company along with interest of a newly incorporated joint venture company, Pak Qatar Investment (Private) Limited (PQIC). These institutions collectively hold 68.6% of the company's shareholding.

Together with Pak Qatar Family Takaful Limited, the Pak Qatar Group offers takaful services in both life and non-life domains. Recently, plans have been concluded to further encapsulate asset management services

Ratings are supported by sound reinsurance panel

As per policy, credit quality of the Company's reinsurance panel cannot fall below investment grade (BBB), wherein maximum allotment cannot exceed 20%. The remaining 80% allotment can only be against reinsurers rated 'A' or above. Presently, the reinsurance panel of the Company is aligned with the policy. Maximum loss retained on the Company's books, at any given time, is viewed as manageable. Cession continues to average ~34%.

Rating incorporates market positioning of the Company

The rating is underpinned by the Company's market positioning as a small-sized player in terms of the overall insurance market, as reflected by its market share of 0.7% for 2020 (2019: 0.8%) in the private sector non-life insurance industry. Market share in the takaful segment stood at 4.8% for 2020 (2019: 6.0%).

Rating incorporates financial risk profile of the Company

The Company's liquidity profile remains strong, wherein liquid assets provide comfortable coverage and cushion over net technical reserves. The operating leverage has varied during the period under review, given contribution contraction in 2020 and subsequent recovery in 2021. Both operating and financial leverage remain range-bound and commensurate with the assigned rating.

Pak-Qatar General Takaful Limited

Appendix I

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**Dec 31, 2018**	**Dec 31, 2019**	**Dec 31, 2020**	**Sept 30, 2021**
Cash and Bank Deposits	203.3	247.2	173.7	255.5
Investments	310.2	350.3	531.1	574.7
Investment Properties	-	-	-	-
Insurance Debt	277.8	211.5	164.0	192.4
Total Assets	1,459.2	1,516.8	1,429.4	1,793.4
Paid Up Capital	509.2	509.2	509.2	509.2
Net Worth	441.5	458.7	505.2	577.2
Total Liabilities	1,016.8	1,057.3	924.2	1,216.2
INCOME STATEMENT	**2018**	**2019**	**2020**	**9M'2021**
Net Contribution Revenue	450.7	477.3	426.5	431.8
Net Claims	231.6	251.6	197.1	204.1
Underwriting Profit	7.1	(11.8)	(8.6)	41.8
Net Investment Income	15.1	25.7	44.4	34.4
Profit Before Tax (SHF+PTF)	30.7	31.5	43.4	74.4
Profit After Tax (SHF & PTF)	24.3	23.8	45.5	45.1
RATIO ANALYSIS		**Dec 31, 2019**	**Dec 31, 2020**	**Sept 30, 2021**
Cession Ratio (%)		33.4%	33.5%	29.1%
Gross Claims Ratio (%)		51.5%	46.0%	45.3%
Net Claims Ratio (%)		52.7%	46.2%	47.3%
Underwriting Expense Ratio (%) (incl. acquisition cost)		50.4%	60.4%	47.6%
Combined Ratio (%)		100.8%	100.5%	89.7%
Net Operating Ratio (%)		97.6%	92.7%%	80.8%
Insurance Debt to Gross Contribution (%)		30.2%	27.2%	22.5%*
Operating Leverage (%)		104.1%	84.4%	99.5%*
Financial Leverage (%)		56.2%	48.1%	54.1%
Liquid Assets to Net Technical Reserves (x)		2.3x	2.9x	2.7x
*Annualized				

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

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: 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.vis.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.vis.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.vis.com.pk/images/policy_ratings.pdf

REGULATORY DISCLOSURES						Appendix III
Name of Rated Entity	Pak-Qatar General Takaful Limited					
Sector	Insurance/Takaful					
Type of Relationship	Solicited					
Purpose of Rating	Insurer Financial Strength Rating					
Rating History	**Rating Date**	**Medium to Long Term**	**Outlook**	**Short Term**	**Rating Action**	
			RATING TYPE: IFS			
	01-Mar-22	A-	Stable		Reaffirmed	
	22-Jan-21	A-	Stable		Reaffirmed	
	1-Nov-19	A-	Stable		Reaffirmed	
	1-Nov-19	A-	Stable		Reaffirmed	
	27-Aug-18	A-	Stable		Reaffirmed	
	20-Mar-17	A-	Stable		Reaffirmed	
	2-Mar-16	A-	Stable		Maintained	
	31-Dec-14	A-	Positive		Maintained	
Instrument Structure	N/A					
Statement by the Rating Team	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 insurer financial strength only and is not a recommendation to buy or sell any securities.					
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Due Diligence Meetings Conducted	Name	Designation	Date
	Mr. Saqib Zeeshan	CEO	January 28, 2022
	Mr. Muhammad Saleeem	CFO	
	Mr. Muhammad Raza	Head of Operations	
	Mr. Shoaib Akhtar	COO	