

Pak-Kuwait Takaful Company Limited

Chairman: Mr. Mohammad Tarmidzi Ahmad Nordin;

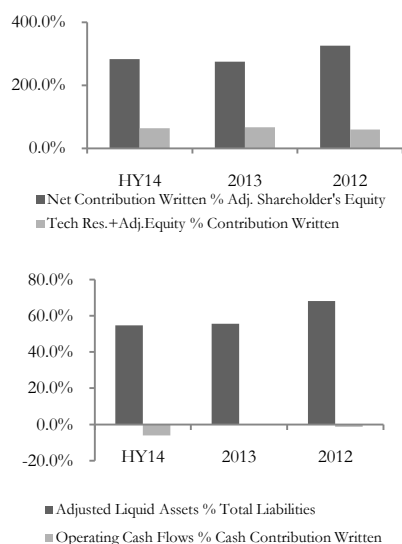
Chief Executive Officer: Mr. Imtiaz Ahmed Bhatti

February 26, 2015

Analysts: Maimoon Rasheed
Muniba Khan

Category	Latest	Previous
IFS	BBB Jan 20, '15	A- Dec 6, '13
Outlook	Rating Watch – Developing Jan 20, '15	Stable Dec 6, '13

Key Financial Trends



(In Rs. M)	FY11	FY12	FY13
Gross Contribution	642	720	780
Market Share	1.5%	1.6%	1.5%
Net Contribution	455	529	520
Net Claims ratio	50%	53%	50%
Combined ratio	107%	100%	103%
Net Profit / (Loss)	10.2	15.6	62.1
Adj. Equity	201	218	279
Operating Leverage	299%	325%	275%
Financial Leverage	136%	96%	87%
Insurance debt % Gross Contribution	30%	28%	34%

Rating Rationale

The rating takes into account a business review undertaken by a team from key shareholder that has raised certain matters. The rating also incorporates lower gross contributions underwritten by Pak-Kuwait Takaful Company Limited (PKTCL) during 9M14 vis-à-vis targeted contribution base for FY14; resulting in downward revision in business target.

The assigned rating recognizes the ownership structure of PKTCL, comprising prominent financial institutions from Malaysia, Kuwait, UAE and Pakistan. Sponsors have demonstrated financial support with equity injection of Rs. 50m in the on-going year. Despite the injection, compliance with the minimum solvency requirement of Rs. 150m may not be achieved by end-FY14. In line with growth in equity, leverage indicators have improved on a timeline basis; however, operating leverage continues to remain on the higher side vis-à-vis peers.

In recent periods, insurance debt has depicted a rising trend; management attributes this to the change in business mix. Insurance debt is on the higher side in relation to most peers. This trend is expected to continue given that premium from non-motor segments is collected in arrears vis-à-vis motor business, which is collected at the time of issuance of policy. The same has an impact on the company's cash flows and liquidity profile, which has weakened on a timeline basis.

Liquid assets to liabilities declined to 54.6% by end-HY14. Liquid assets, held primarily in the form of TDRs and GoP Ijarah Sukuk, pertain to shareholder's fund (SHF), with only a limited amount belonging to participants' takaful fund (PTF). Given that balance of waqf fund continues to be negative on account of accumulated losses, PTF does not have excess liquidity for building investments. Credit or market risk arising from the portfolio is considered manageable; however, in a declining interest rate scenario, returns on the portfolio are likely to come under pressure, due to periodic re-pricing. In view of this, generating positive earnings from underwriting operations assumes greater significance as support from investment income may decline. While the PTF continues to be in deficit, JCR-VIS' assessment of the company's claims paying ability takes into account the equity in SHF as shareholders are mandated to provide support to PTF, if required, under the prevailing regulations.

On account of adverse claims experience in the motor segment, the company continues to pursue its strategy of diversifying its business mix towards non motor segments while maintaining a maximum proportion of 40% in motor. Total business of Rs. 780.3m (FY12: Rs. 720.4m) was booked by PKTCL, during FY13. The growth was solely contributed by fire segment. Gross contributions of Rs. 708.9m were written in 9M14 vis-à-vis target of Rs. 970m for FY14. Loss ratios remained above 50%; for 9M14, net claims ratio was reported at 54.7% (FY13: 50.3%; FY12: 53.2%).

PKTCL has retakaful arrangements with a panel of retakaful operators, which lends support to the loss absorption capacity of the institution. Labuan Re is the lead reinsurer in all major segments. There were notable changes on the panel for 2014 as Best-Re exited. A portion of its share was taken over by Hannover Re, a new addition to the panel, while the remaining was allocated to Africa Retakaful. Moreover, PKTCL has negotiated surplus covers for all major segments except motor. To some extent, losses on net account from these segments are protected by the presence of a whole account XoL treaty.

Significant changes were witnessed on the board during FY14. However, board composition may improve with the appointment of an independent director and a representative of participants, as recommended by the Islamic Financial Services Board. Regular meetings of the Shariah Supervisor Board (SSB) may also need to be convened as it provides necessary platform for the SSB members to engage in discussion with regards to Shariah related matters.

Overview of the Institution

Pak Kuwait Takaful Company Limited was incorporated as an unlisted public limited company in 2003. PKTCL operates with a network of five branches. Financial Statements for 2013 were audited by M/s KPMG Taseer Hadi & Co. Chartered Accountants **JCR-VIS**

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: IFS</u>				
06-Dec-13	A-	Stable		Reaffirmed
17-Dec-12	A-	Stable		Reaffirmed
28-Dec-11	A-	Stable		Reaffirmed
03-Jan-10	A-	Stable		Reaffirmed
30-Dec-09	A-	Stable		Reaffirmed