RATING REPORT

Pak-Qatar General Takaful Limited

REPORT DATE:
April 18, 2017

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	*Mar 20, '17*	*Mar 2, '16*
Rating Outlook	Stable	Stable
Outlook Date	*Mar 20, '17*	*Mar 2, '16*

COMPANY INFORMATION	
Incorporated in 2006	**External auditors:** M/s DeloitteYousuf Adil
Public unlisted Company	**Chairman of the Board:** H.E. Shaikh Ali Bin Abdullah
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Javed Muslim
Pak Qatar Investment (Private) Limited - 36.5%	
Sheikh Ali Bin Abdullah - 14.7%	
Qatar International Islamic Bank - 14.1%	
Masraf Al-Rayan - 12.7%	
Qatar Islamic Insurance Company - 11.3%	
Fawad Yusuf Securities - 6.5%	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria *http://www.jcrvis.com.pk/images/methodology.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 and operates with 10 branches. Its shareholding is largely held by Qatar based financial institutions. The financial statements for 2016 are audited by M/s DeloitteYousuf Adil

RATING RATIONALE

The assigned rating continues to be underpinned by the ownership structure of PQGTL comprising prominent Qatar based financial institutions. During 2016, there was one significant change in the shareholding pattern with Mr. Said Gul and family's interest parked in an associate, Pak Qatar Investment (Private) Limited (PQIC). As a result, PQIC's vested interest represents 36.5% shareholding in the company.

Rating Drivers

1. **Business Volumes:** With a deliberate strategy to consolidate its books, the company restricted its contribution base. During 2016, the company adopted a strategy to report a positive bottom line rather than focusing on aggressive growth targets. As a result, portfolio of PQGTL shed off loss making clients in each segment, especially in motor. Moreover, a lower contribution base was also a function of decline in rates in the industry. The company envisages significant growth in non-motor portfolio in the coming years while keeping motor's proportion significant in its business mix.
2. **Underwriting Performance:** Claims performance of the company has improved on a timeline basis. Moreover, the company was able to adopt a cost cutting strategy by merging existing branches as well as centralizing its operations. As a result, the company was able to curtail its operating expenses. Expense ratio was reported higher on account of a lower contribution base in 2016 vis-à-vis previous years. As a result, combined ratio also remained above 100% mark.
3. **Capitalization:** Enhancement in equity base may improve the rising leverage indicators; leverage indicators of the company remain on the higher side as compared to peers on account of current capitalization levels. Leverage indicators improved on a timeline basis, however, operating leverage is still higher than acceptable threshold. Financial leverage declined significantly in 2015 before increasing again in 2016 on account of higher outstanding claims.
4. **Liquidity:** Insurance debt increased during the outgoing year with it mostly comprising contribution due but unpaid. Majority of receivables emanated from motor and fire segments. With higher insurance debt balances and lower business written, insurance debt as a proportion of gross contribution increased to 43.4% Rising level of insurance debt needs to be arrested to improve the company's cash flows and hence the liquidity profile.
5. **Investments:** Constrained cash flows have limited growth of investment portfolio. Investment avenues of the company include debt securities, term deposit receipts and mutual funds.
6. **Reinsurance:** Reinsurance panel of PQGTL constitutes reinsurers with a rating of BBB+ and above. For the year 2016, there were certain changes observed on the panel with the exit of Takaful Re. Labuan Re continues to be the lead re-takaful company in the panel. PQGTL has 3 different types of treaties in place for various business segments; these are quota share, surplus and Excess of Loss (XoL). On account of lower net contribution, risk of the company has declined in terms of business booked on net account. However, as business grows, the company may consider increasing cession of its segments.

Pak-Qatar General Takaful Limited **Appendix I**

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**DEC 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Cash and Bank Deposits	184.3	259.7	179.1
Investments	220.1	224.6	264.1
Investment Properties	-	-	-
Insurance Debt	283.5	231.0	378.3
Total Assets	1,065.5	905.1	1,057.9
Net Worth	412.4	405.1	323.4
Total Liabilities	653.1	500.5	734.5
INCOME STATEMENT	**DEC 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Net Contribution Revenue	219.9	373.5	506.2
Net Claims	255.2	412.7	542.2
Underwriting Profit	(9.8)	(8.8)	(2.4)
Net Investment Income	24.0	35.2	39.7
Profit Before Tax (SHF)	4.0	7.8	32.1
Deficit transferred to Participants' equity	(5.1)	(15.1)	13.1
Profit After Tax (SHF & PTF)	7.3	17.9	5.4
RATIO ANALYSIS	**DEC 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Market Share (Gross Contribution) (%)	-	-	-
Cession Ratio (%)	33.9%	20.9%	15.4%
Gross Claims Ratio (%)	60.6%	52.1%	62.6%
Net Claims Ratio (%)	54.0%	62.4%	63.7%
Underwriting Expense Ratio (%)	50.15%	40.27%	36.6%
Combined Ratio (%)	104.1%	102.7%	100.3%
Net Operating Ratio (%)		98.0%	95.3%
Insurance Debt to Gross Contribution (%)	43.4%	32.9%	37.7%
Operating Leverage (%)	114.7%	161.9%	261.4%
Financial Leverage (%)	81.8%	70.2%	155.2%
Adjusted Liquid Assets to Technical Reserves (%)	120%	169%	88%

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	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				
20-Mar-17	A-	Stable		Reaffirmed
2-Mar-16	A-	Stable		Maintained
31-Dec-14	A-	Positive		Maintained
19-Jun-13	A-	Stable		Upgrade
29-Nov-12	BBB+	Positive		Maintained

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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