

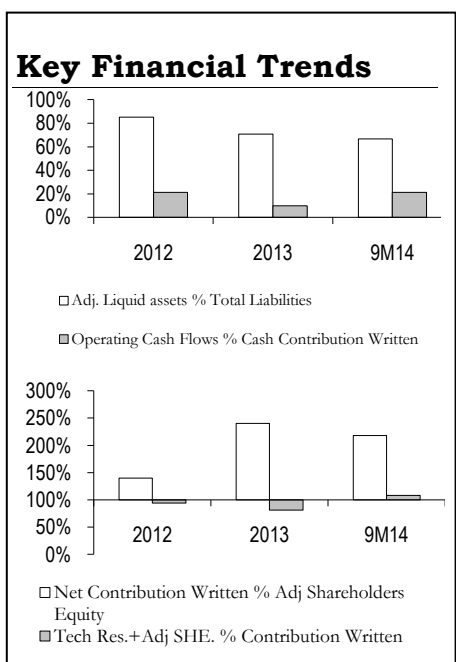
Pak Qatar General Takaful Limited

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

Date: March 12, 2015

Analysts: Amir Shafique
Faiq Sattar

Category	Latest	Previous
IFS	A- Dec 31, '14	A- Jun 19, '13
Outlook	Positive Dec 31, '14	Stable Jun 19, '13



(In Rs.m)	2012	2013	9M14
Gross Contributions	549	1029	655
Market Share	1.2%	2.0%	-
Expense Ratio	45.3%	32.9%	27.8%
Net Claims ratio	59.9%	64.7%	65.3%
Net Operating Ratio	97.6%	93.0%	88.2%
Net Profit / (Loss)	11.4	22.6	3.1
*Adjusted Equity	202	294.4	299.4
Operating Leverage	214%	293%	346%
Financial Leverage	144%	176%	133%
Insurance debt % Gross Premium	22.7%	28.8%	32.3%

Rating Rationale

The assigned rating incorporates demonstrated support of financially strong sponsors, which include reputed Qatar based Islamic financial institutions. Further to a rights issue of Rs. 100m completed last year; sponsors are in the process of injecting additional Rs. 100m in two tranches. The first tranche of Rs. 50m has been received by the company while the remaining amount is expected by end-March 2015. Equity injection is expected to keep risk adjusted capitalization commensurate with the assigned rating as the company continues to pursue growth in business volumes. Moreover, equity injection is likely to support liquidity profile of the company that has featured some weakening on a timeline basis.

Lead by motor and health business, the company depicted aggressive growth in gross contribution amounting to Rs. 1b (FY12: Rs. 549.2m) during FY13. On the contrary, the share of fire and marine in overall business mix has declined overtime. The management intends to consolidate growth while containing the proportion of motor and health. PQGTL has set a target of Rs. 950m for 2014. Given the riskier nature of motor and health, diversification in business mix is warranted.

Even though net claims ratio has increased on a time line basis, overall underwriting loss reduced to 11.5m (FY13: Rs. 22m; FY12: Rs. 33.2m) during 9M14. There was significant improvement in underwriting performance of the motor segment on an ongoing basis. However, high incidence of claims in the health segment has kept underwriting results under pressure where net claims ratio has exceeded 100%. The company has taken several measures to curtail losses in health; the impact will be seen overtime. Given the business volumes, consolidated net profit depicted a decline in 9M14. Profitability has emanated from Shareholders' Fund (SHF) while Participant takaful Fund (PTF) continues to be in deficit. The management is expected to achieve breakeven in PTF by end 2016.

The company has a conservative investment policy with funds primarily invested in GoP Ijarah Sukuk, cash/income funds and Term Deposit Receipts (TDRs). Credit and market risk arising from investments is manageable. However, the portfolio is exposed to re-investment risk on account of upcoming maturities, which has heightened lately, due to downward trend in policy rate. The impact of decline in investment income is likely to be partially off-set by deployment of rights issue proceeds towards investment avenues.

PQGTL has 6 re-takaful operators in the panel. Labuan Re (rated A- by S&P) is the lead re-takaful operator in all segments. There were two changes in the panel with exit of Best-Re in 2014. A portion of its share was taken over by African Re while the remaining was allocated to Emirates Re; both were new additions to the panel. The company negotiated higher treaty capacities in fire and marine segments while enhancing retention in marine. The new treaty capacities are in line with the company's strategy of increasing business volumes in fire and marine segments. However, any material progress in this regard is yet to materialize. The company is in the process of negotiating health and terrorism covers for FY15.

There were some notable changes at senior management positions; fresh inductions include qualified & experienced professionals. Greater stability in top management is considered essential for institutional development and continuity of business strategy. The ERP system has been fully implemented that is likely to strengthen the overall control environment.

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 13 branches. Its shareholding is largely held by Qatar based financial institutions. The financial statements 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
<u>RATING TYPE: IFS</u>				
31-Dec-14	A-	Positive		Maintained
19-Jun-13	A-	Stable		Upgrade
29-Nov-12	BBB+	Positive		Maintained
14-Dec-11	BBB+	Stable		Reaffirmed