



The Pakistan Credit Rating Agency Limited

Rating Report

Salaam Takaful Limited (Formerly: Takaful Pakistan Limited)

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Rating History

Dissemination Date	IFS Rating	Outlook	Action	Rating Watch
02-Feb-2024	A++ (ifs)	Stable	Maintain	-
01-Feb-2023	A++ (ifs)	Stable	Maintain	-
31-Mar-2022	A++ (ifs)	Stable	Harmonize	-
01-Feb-2022	A+	Stable	Upgrade	-
01-Feb-2021	A	Stable	Upgrade	-
28-Aug-2020	A-	Stable	Maintain	-
29-Aug-2019	A-	Stable	Maintain	-
27-Feb-2019	A-	Stable	Maintain	-
27-Dec-2018	A-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

In terms of Gross Written Premium (GWP), the general insurance industry has a total size of PKR 166bln in 9MCY23 compared to PKR 113bln in 9MCY22, exhibiting a growth of ~47%. The industry reported a growth of ~266% in underwriting results to PKR 9.9bln in 9MCY22 (9MCY22: PKR 2.7bln). The net income of the industry also experienced an increase of ~170% to PKR 20bln in 9MCY22 (9MCY22: PKR 7.4bln). The industry experienced a period without significant claims, contributing to the overall significant performance reported by the entire sector.

The assigned rating of Salaam Takaful Limited (“Salaam Takaful” or the “Company”), a sole takaful operator, takes into account the support from financially sound and experienced sponsors, along with a robust governance structure. Salaam Takaful has been exhibiting strong and persistent growth. Salaam Takaful's GPW, mainly trickling from Motor and Health segments, reported growth (~37%). Though the growth remains value-driven with limited volumes trickling in, concentration risk seems to have been minimally reduced in the segmental mix owing to a major expansion in the fire segment. The Company's underwriting performance struggled with higher reinsurance premiums and increased claims during the period. Investment income remains visible, attributed to revaluation gain on investment properties, however, it remains less supportive for the bottom line. On the financial risk front, the investment book reflected an increase of ~27%, primarily in Subsidiaries/Associates (Salaam Family Takaful and Salaam Properties) and Investment Properties. Though there is a recent equity injection of ~PKR 500mln, the Company's overall liquidity remains tied till the investments - in life insurance and property business - become cash generators for the Company. Going forward, timely and successful materialization of expansion plans remains imperative for sustaining the financial health of the Company.

The rating is dependent on the management's ability to capitalize on the Group's well-built platform for business expansion. Moreover, successful materialization of envisioned strategies - diversifying the revenue stream and strengthening the investment income - remains imperative. This along with upholding the liquidity profile and enhancement in equity levels are important for the ratings.

Disclosure

Name of Rated Entity	Salaam Takaful Limited (Formerly: Takaful Pakistan Limited)
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology General Insurance Rating(Mar-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study General Insurance(Jun-23)
Rating Analysts	Faiqa Qamar faiqa.qamar@pacra.com +92-42-35869504



Profile

Legal Structure Salaam Takaful Limited (“Salaam Takaful” or “the Company”) is an unlisted public limited company, incorporated in Jun-06.

Background In 2017, a strategic transformation took place under new ownership, rebranding Takaful Pakistan Limited into Salaam Takaful Limited. This pivotal change aimed at positioning the Company as Pakistan's pioneering digitalized Islamic Insurtech.

Operations As the sole takaful operator, the Company is managed by a Shariah Adviser and underwrites risks in Property, Marine, Motor, Health, and Miscellaneous General Insurance. With eight branches, including a head office in Karachi and a regional office in Lahore, the Company is expanding its headquarters to support future growth.

Ownership

Ownership Structure Key shareholders, including Mr. Salim Habib Godil, Mr. Shahzad Salim Godil, Mr. Rizwan Hussain, and Mr. Salman Hussain, collectively hold ~78.6% stake, equally distributed among them. ~21.4% stake is shared among House Building Finance Company Limited, Al Baraka Bank Limited, Mal Al Khaleej Investment LLC, and Sitara Chemical Industries.

Stability The shareholders, supported by experienced leadership and a team of qualified professionals, have established long-term goals for the Company, contributing to its overall stability.

Business Acumen Salaam Takaful holds shares from prominent financial institutions, renowned insurance industry professionals, and executives of major business conglomerates in Pakistan.

Financial Strength The Company's shareholders offer a robust financial foundation for Salaam Takaful. The consistent history of equity injections underscores the sponsor's unwavering commitment to supporting the Company.

Governance

Board Structure Salaam Takaful has a seven-member Board, with the CEO & MD serving as an Executive Director. The Board includes all Non-Executive Directors, with one Independent Director.

Members' Profile Mr. Salim Habib Godil, a renowned businessman, is the Chairman of the Board. The diverse Board includes executives from business conglomerates and insurance industry veterans, providing unique leadership to the Company.

Board Effectiveness Salaam Takaful currently has three Board-level committees: Audit, Investment, and HR. The Company places a strong emphasis on compliance, and these committees operate in accordance with corporate governance requirements. Meeting minutes are diligently documented for all committees.

Transparency The External Auditors of the Company, M/s KPMG Taseer Hadi & Co, provided an unqualified opinion on the financial statements of CY22. The Company has appointed Yousuf Adil as the Internal Auditor.

Management

Organizational Structure A lean organizational structure has been maintained by the Company, with reporting lines delineated towards the CEO of the Company.

Management Team Mr. Rizwan Hussain, the CEO & MD of the Company, possesses a unique blend of experience and 25 years of leadership in Insurance sales. Supported by a team of seasoned professionals, he leads the Company with expertise and vision.

Effectiveness The Company maintains three management committees: Underwriting and Retakaful & Co-takaful Committee, Benefit (Claim) Settlement Committee, and Risk Management & Compliance Committee. Comprehensive meeting minutes are consistently recorded.

MIS Salaam Takaful established an in-house MIS called 'Takaful Management System,' integrating all its modules seamlessly. This system facilitates the continuous generation of comprehensive MIS reports, incorporating underwriting, claims, agency, and finance modules.

Claim Management System The Company has implemented a centralized claims processing system, granting data entry rights solely to branches. In the event of a claim, the loss is reported, reserves are recorded with the estimated loss amount, and a surveyor is appointed.

Investment Management Function Salaam Takaful has formulated a formal IPS (Investment Policy Statement) that undergoes annual review and approval by the Shariah Advisory.

Risk Management Framework Salaam Takaful centrally manages underwriting and policy issuance at the head office. Branches can issue policies, but only the head office has rights for policy posting and a new customer database. Policy issuance requires a pre-inspection analysis based on branch-collected information.

Business Risk

Industry Dynamics In terms of Gross Written Premium (GWP), the general insurance industry has a total size of PKR 166bln in 9MCY23 compared to PKR 113bln in 9MCY22, exhibiting a growth of ~47%. The industry reported growth of ~266% in underwriting results to PKR 9.9bln in 9MCY22 (9MCY22: PKR 2.7bln). The net income of the industry also experienced an increase of ~170% to PKR 20bln in 9MCY22 (9MCY22: PKR 7.4bln). The industry experienced a period without significant claims, contributing to the overall significant performance reported by the entire sector.

Relative Position Salaam Takaful holds a market share of ~1.6% for the period ended Sep-23, deeming it a small player in the general insurance industry.

Revenue During CY22, the Company's Gross Contribution Written (GCW) grew by ~35% to PKR 3,002mln (CY21: PKR 2,220mln). During 9MCY23, there was a ~37% increase in GPW, reaching to PKR 2,628mln. The segment mix is led by Motor (~38%), Health (~37%), Fire & Property damage (~18%), Miscellaneous (~5%), and Marine (~2%). The Company actively manages concentration risk for efficient operations.

Profitability During CY22, the Company reported a growth in the underwriting profit, reaching PKR 157mln (CY21: PKR 130mln). However, during 9MCY23, the underwriting profit declined to PKR 14mln due to high claims incurred during the period. This impact, despite a healthy investment income, led to a net income of PKR 96mln (9MCY22: PKR 161mln, CY22: PKR 176mln, CY21: PKR 177mln).

Investment Performance During CY22, the investment income increased to PKR 68mln (CY21: PKR 63mln). During 9MCY23, investment income reported at PKR 103mln (9MCY23: PKR 3mln) reflecting the revaluation gain from investment properties. The Investment portfolio comprises ~59% in unlisted subsidiaries and ~23% in investment properties. During 9MCY23, investment portfolio increased by ~27% (CY22: PKR 1,124mln).

Sustainability The Company prioritizes technology for enhanced operational efficiency, anticipating positive impacts on the bottom line. Backed by robust sponsor support and strengthened synergies with associated companies, it aims to expand its footprint in the insurance industry of Pakistan.

Financial Risk

Claim Efficiency The outstanding claims position has improved, however remains high, with contributions due but unpaid reported at PKR 596mln in 9MCY23 (CY22: PKR 741mln). The outstanding days stood at 116 days in 9MCY23 (CY22: 109 days).

Re-Insurance Salaam Takaful has its Re-Takaful arrangements with Labuan Re ('A-' by AM Best), Saudi Re ('A3' by Moody), Kuwait Re ('A-' by AM Best), Malaysian Re ('A-' by A.M Best), PRCL ('AA' by VIS) and Singapore Re ('A' by AM Best).

Cashflows & Coverages Salaam Takaful's liquid investment book as of 9MCY23 reported at PKR 148mln (CY22: PKR 578mln). As of 9MCY23, Salaam Takful's liquid assets/outstanding claims including IBNR reported at 0.2x (CY22: 0.8x) reflecting a decline in the liquid assets.

Capital Adequacy The Company is well equipped in capital adequacy as per the requirements of SECP. The Company's equity reported at PKR 1,500mln as at 9MCY23 (CY22: PKR 1,069mln). The Company has increased its paid-up capital to PKR 1,631mln as at 9MCY23 (CY22: PKR 1,132mln).



Salaam Takaful Limited
Public Unlisted Company

PKR Mln PKR Mln PKR Mln PKR Mln PKR Mln
Sep-23 Dec-22 Sep-22 Dec-21 Dec-20
9M 12M 9M 12M 12M

A BALANCE SHEET

1 Investments	1,433	1,124	577	938	958
2 Insurance Related Assets	2,018	2,175	1,868	1,213	657
3 Other Assets	1,503	834	1,238	1,427	449
4 Fixed Assets	196	116	122	144	95
5 Window Takaful Operations	-	-	-	-	-
Total Assets	5,150	4,249	3,805	3,722	2,159
1 Underwriting Provisions	1,722	1,591	1,289	1,226	788
2 Insurance Related Liabilities	904	862	711	377	308
3 Other Liabilities	1,025	726	706	1,230	648
4 Borrowings	-	-	-	-	-
5 Window Takaful Operations	-	-	-	-	-
Total Liabilities	3,651	3,179	2,706	2,833	1,744
Equity/Fund	1,500	1,069	1,100	889	441

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	2,628	3,002	1,922	2,220	1,606
2 Net Insurance Premium/Net Takaful Contribution	2,233	2,391	1,705	1,626	1,211
3 Underwriting Expenses	(2,219)	(2,233)	(1,518)	(1,496)	(1,201)
Underwriting Results	14	157	186	130	10
4 Investment Income	103	68	3	63	83
5 Other Income / (Expense)	(4)	2	(11)	(12)	(19)
Profit Before Tax	113	228	179	181	74
6 Taxes	(17)	(52)	(19)	(4)	(13)
Profit After Tax	96	176	161	177	61

PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	2,628	3,002	1,922	2,220	1,606
2 Net Takaful Contribution	1,458	1,300	880	942	746
3 Net Takaful Claims	(1,429)	(1,260)	(826)	(876)	(690)
4 Direct Expenses Including Re-Takaful Rebate Earned	23	(8)	(11)	(15)	(32)
Surplus Before Investment & Other Income/(Expense)	52	32	43	51	24
5 Investment Income	(2)	(7)	(4)	26	41
6 Other Income/(Expense)	6	(1)	(1)	(8)	(9)
Surplus for the Period	55	24	39	69	56

OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	775	1,090	825	684	465
2 Management, Commission & Other Acquisition Costs	(813)	(965)	(682)	(605)	(479)
Underwriting Income/(Loss)	(38)	125	143	79	(13)
3 Investment Income	105	75	7	37	43
4 Other Income/(Expense)	(10)	3	(10)	(4)	(11)
Profit Before tax	57	204	140	112	18
5 Taxes	(17)	(52)	(19)	(4)	(13)
Profit After tax	40	152	122	108	5

C RATIO ANALYSIS

1 Profitability					
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful Contribution	64.0%	52.7%	48.4%	53.9%	57.0%
Combined Ratio (Loss Ratio + Expense Ratio)	99.4%	93.4%	89.1%	92.0%	99.1%
2 Investment Performance					
Investment Yield	10.7%	6.6%	0.6%	6.7%	10.5%
3 Liquidity					
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	0.2	0.8	0.7	2.4	3.9
4 Capital Adequacy					
Liquid Investments / Equity (Funds)	9.9%	54.0%	44.4%	91.2%	208.5%

Insurer Financial Strength (IFS) Rating

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of an insurance company to meet policy holders and contractual obligations.

Scale	Definition
AAA (ifs)	Exceptionally Strong. Exceptionally Strong capacity to meet policy holders and contract obligations. Risk factors are minimal, and the impact of any adverse business and economic factors is expected to be extremely small.
AA++ (ifs) AA+ (ifs) AA (ifs)	Very Strong. Very Strong capacity to meet policy holders and contract obligations. Risk factors are very low, and the impact of any adverse business and economic factors is expected to be very small.
A++ (ifs) A+ (ifs) A (ifs)	Strong. Strong capacity to meet policy holders and contract obligations. Risk factors are low, and the impact of any adverse business and economic factors is expected to be small.
BBB++ (ifs) BBB+ (ifs) BBB (ifs)	Good. Good capacity to meet policy holders and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be manageable.
BB++ (ifs) BB+ (ifs) BB (ifs)	Modest. Modest capacity to meet policy holders and contract obligations. Though positive factors are present, risk factors are relatively high, and the impact of any adverse business and economic factors is expected to be significant.
B++ (ifs) B+ (ifs) B (ifs)	Weak. Weak capacity to meet policy holders and contract obligations. Risk factors are high, and the impact of any adverse business and economic factors is expected to be very significant.
CCC (ifs) CC (ifs) C (ifs)	Very Weak. Very weak capacity to meet policy holders and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors may lead to insolvency or liquidity impairment
D (ifs)	Distressed. Extremely weak capacity with limited liquid assets to meet policy holders and contract obligations, or subjected to some form of regulatory intervention or declared insolvent by the regulator.

<p>Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.</p>	<p>Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.</p>	<p>Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.</p>	<p>Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s): General Insurance & Takaful Operator, Life Insurance & Family Takaful Operator.

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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
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- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

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- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 17-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

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