



The Pakistan Credit Rating Agency Limited

Rating Report

Salaam Takaful Limited

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Rating History

Dissemination Date	IFS Rating	Outlook	Action	Rating Watch
31-Jan-2025	A++ (ifs)	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

Pakistan's general insurance industry holds a total size of ~PKR 99bln during 6MCY24 (6MCY23: ~PKR 84bln), exhibiting a growth of ~18% in Gross Premium Written (GPW). The industry reported an increase of ~130% in underwriting results (6MCY24: ~PKR 6bln, 6MCY23: ~PKR 2.6bln). Overall, the investment income experienced an increase of ~52% to ~PKR 11.7bln during 6MCY24 (6MCY23: ~PKR 7.7bln). However, current economic conditions remain imperative for the insurance industry's overall performance.

Salaam Takaful Limited ("Salaam Takaful" or the "Company") is a dedicated takaful operator. The Company's assigned IFS rating is supported by financially sound and experienced sponsors and a robust governance structure. Over the years, the Company's GPW has posted persistent value-driven growth, mainly trickling from fire & property, motor, and health segments. Concentration risk seems to have been minimally reduced in the segmental mix owing to a major expansion in the fire & property segment. However, underwriting results bear an impact mainly due to a higher claim ratio from the health segment along with increased reinsurance premiums. Investment income, attributed to revaluation gain on investment properties, requires discipline to support the bottom line. Financial risk is marginally managed with a static investment book, primarily comprising investments in Subsidiaries/Associates (Salaam Family Takaful and Salaam Properties) and Investment Properties. Salaam Takaful holds adequate equity base. While, the Company requires attention to manage the overall liquidity until life insurance and property business become cash generating investments. The management is eyeing on an equity injection, going forward; however, timely and successful materialization the same along with other expansionary plans remains imperative to sustain 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 improved equity levels are important to the IFS rating.

Disclosure

Name of Rated Entity	Salaam Takaful Limited (Formerly: Takaful Pakistan Limited)
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Assessment Framework General Insurance(Mar-24),Methodology Rating Modifiers(Apr-24)
Related Research	Sector Study General Insurance(Jun-24)
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 on 02-Jun-06 under the repealed Companies Ordinance, 1984 (now called Companies Act, 2017).

Background In 2017, Takaful Pakistan Limited was bought by new shareholders having a vision to create a digitalized Islamic insurance provider. The Company was renamed Salaam Takaful—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 the Fire and property, Marine, Motor, Health, and Miscellaneous segments of the non-life business. The Company operates through eight branches, including a head office in Karachi and a regional office in Lahore.

Ownership

Ownership Structure Mr. Salim Habib Godil, Mr. Shahzad Salim Godil, Mr. Rizwan Hussain, and Mr. Salman Hussain hold a major shareholding (78.6%) of the company. Al Baraka Bank Limited, House Building Finance Company Limited, Mal Al Khaleej Investment LLC, Sitara Chemical Industries, and Trust Securities & Brokerage Ltd hold a 21.4% stake.

Stability The sponsors have established a visionary long-term goal for the Company that ensure overall stability.

Business Acumen The sponsors hold almost three decades of experience in the insurance sector and have witnessed numerous business cycles over time. Also, the sponsors possess requisite skills and knowledge to effectively steer the Company.

Financial Strength The sponsors hold adequate financial footing to support the Company, if needs be, going forward.

Governance

Board Structure A seven-member Board (BoD) manages the overall policy framework for the Company. The BoD comprises two Independent, four Non-Executive and one Executive Directors. The BoD holds substantial independence and gender diversity. However, the BoD is dominated by the sponsors.

Members’ Profile Mr. Salim Habib Godil chairs the BoD with an overall experience of over four decades and has been associated with the Company since 2017. Mr. Shahid Mobin Siddiqui, an Independent Director, bring in diversity and value in the decision making process with more than two decades of professional experience. Other BoD members carry diversified experience and have served at leading positions in various sectors.

Board Effectiveness Three BoD committees - Audit, Human Resource & Remuneration and Investment - assists in developing policy framework. During the year, four BoD meetings were held. The minutes of these meetings are adequately maintained.

Transparency The external auditor of the Company, M/s KPMG Taseer Hadi & Co, provided an unqualified opinion on the financial statements of CY23. The Company has appointed M/s Yousaf Adil as the internal auditor. Both firms are in SBP’s panel ‘A’ category.

Management

Organizational Structure The Company has clear reporting lines ensuring the segregation of duties. Each HoD reports to the CEO, who then reports to the BoD. However, Head of Internal Audit and HR administratively reports to the CEO; while functionally reports to the BoDs respective committees.

Management Team Mr. Rizwan Hussain, the CEO & MD of the Company, holds an overall experience of above two decades in the insurance industry. Lately, Mr. Amjed Bahadur Ali has joined as the CFO. He holds around a decade of experience in the insurance industry. They are supported by an experienced professional team.

Effectiveness The management is assisted by three management level committees - Underwriting and Retakaful & Co-takaful Committee, Benefit (Claim) Settlement Committee, and Risk Management & Compliance Committee. All meeting minutes are adequately documented.

MIS Salaam Takaful has established an in-house system called ‘Takaful Management System,’ integrating all the modules seamlessly. This system facilitates the continuous generation of various MIS reports, incorporating underwriting, claims, agency, and finance modules, on real time basis. These reports can be generated as and when required by the management.

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 The investment committee comprises four members including the CEO, CFO and two BoD members. The Company has an established investment department with a structured investment policy statement (IPS) that provides guidelines 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 Pakistan’s general insurance industry holds a total size of ~PKR 99bln during 6MCY24 (6MCY23: ~PKR 84bln), exhibiting a growth of ~18% in Gross Premium Written (GPW). The industry reported an increase of ~130% in underwriting results (6MCY24: ~PKR 6bln, 6MCY23: ~PKR 2.6bln). Overall, the investment income experienced an increase of ~52% to ~PKR 11.7bln during 6MCY24 (6MCY23: ~PKR 7.7bln). However, current economic conditions remain imperative for the insurance industry’s overall performance.

Relative Position Salaam Takaful holds a market share of ~2.5% for the period ended Jun-24, deeming it a small player in the general insurance industry.

Revenue Salaam Takaful’s GPW mix is dominated by Fire & Property (~33%) and Motor (~31%), followed by Health (~29%), Misc. (~4.6%) and Marine (~1.4%) segments. The Company is a sole Takaful operator. During 6MCY24, GPW posted a value driven growth of ~25%, in line with its strategy to expand the fire segment through effective co-insurance underwriting. The Company actively manages concentration risk for efficient operations.

Profitability The Company reported an underwriting loss of ~PKR 64mln during 6MCY24, due to an increase in the underwriting expenses - higher claims and increased reinsurance premiums. On net level, the Company booked a loss of ~PKR 98mln gathering minimal support from the investment income.

Investment Performance The Company’s total investment book, standing at ~ PKR 1.4bln as of 6MCY24, predominantly comprises Subsidiaries/Associates and Investment Property. The Company’s investment income remains minimal and reported at ~PKR 19mln during 6MCY24.

Sustainability The Company prioritizes technology for enhanced operational efficiency, anticipating positive impacts on the bottom line. Moreover, the focus on diversification – fire & property and motor segments, besides health - bodes well for the overall growth.

Financial Risk

Claim Efficiency As of 6MCY24, Salaam Takaful’s claim efficiency remains weak reflects through considerably high insurance claims/liquid investments ratio. The Company’s outstanding claims days stood at ~130 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). Quota and Surplus treaties with stable capacity bodes well for the Company.

Cashflows & Coverages As of 6MCY24, Salaam Takaful’s liquid assets/outstanding claims including IBNR reported at 0.1x reflecting limited liquidity coverage. The concentration of investment book towards Subsidiaries/Associates and Investment Property has impacted the coverage ratios.

Capital Adequacy The Company is well equipped in capital adequacy as per the requirements of SECP. The Company’s equity reported at PKR 1.6bln as at 6MCY24. The Company has increased its paid-up capital to PKR 1.8bln as at 6MCY24.



PKR Mln

Salaam Takaful Limited
Public Unlisted Company

Jun-24	Dec-23	Dec-22	Dec-21
6M	12M	12M	12M

A BALANCE SHEET

1 Investments	1,401	1,403	1,124	938
2 Insurance Related Assets	4,314	3,211	2,175	1,213
3 Other Assets	2,412	1,848	834	1,427
4 Fixed Assets	314	219	116	144
5 Window Takaful Operations	-	-	-	-
Total Assets	8,440	6,680	4,249	3,722
1 Underwriting Provisions	2,716	2,190	1,591	1,226
2 Insurance Related Liabilities	1,902	1,249	862	377
3 Other Liabilities	2,148	1,487	693	1,230
4 Borrowings	-	-	-	-
5 Window Takaful Operations	-	-	-	-
Total Liabilities	6,766	4,926	3,146	2,833
Equity/Fund	1,674	1,754	1,103	889

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	2,504	4,099	3,002	2,220
2 Net Insurance Premium/Net Takaful Contribution	1,752	3,100	2,391	1,626
3 Underwriting Expenses	(1,816)	(2,992)	(2,233)	(1,496)
Underwriting Results	(64)	108	157	130
4 Investment Income	19	96	65	56
5 Other Income / (Expense)	3	82	5	(4)
Profit Before Tax	(42)	286	228	181
6 Taxes	(56)	(52)	(52)	(4)
Profit After Tax	(98)	234	176	177

PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	2,504	4,099	3,002	2,220
2 Net Takaful Contribution	889	1,944	1,300	942
3 Net Takaful Claims	(1,132)	(1,810)	(1,260)	(876)
4 Direct Expenses Including Re-Takaful Rebate Earned	30	38	(8)	(15)
Surplus Before Investment & Other Income/(Expense)	(213)	172	32	51
5 Investment Income	2	7	(10)	18
6 Other Income/(Expense)	2	9	1	(0)
Surplus for the Period	(209)	188	24	69

OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	863	1,157	1,090	684
2 Management, Commission & Other Acquisition Costs	(715)	(1,220)	(965)	(605)
Underwriting Income/(Loss)	148	(63)	125	79
3 Investment Income	17	89	75	37
4 Other Income/(Expense)	1	73	3	(4)
Profit Before tax	167	98	204	112
5 Taxes	(56)	(52)	(52)	(4)
Profit After tax	111	46	152	108

C RATIO ANALYSIS

1 Profitability				
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful Contribution	64.6%	58.4%	52.7%	53.9%
Combined Ratio (Loss Ratio + Expense Ratio)	103.7%	96.5%	93.4%	92.0%
2 Investment Performance				
Investment Yield	2.7%	7.6%	6.4%	5.9%
3 Liquidity				
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	0.1	0.2	0.8	2.4
4 Capital Adequacy				
Liquid Investments / Equity (Funds)	8.4%	8.9%	52.4%	91.2%

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

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- (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)
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- (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)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
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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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