



The Pakistan Credit Rating Agency Limited

Rating Report

5th Pillar Family Takaful Limited

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Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
09-Mar-2023	A+ (ifs)	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

5th Pillar Family Takaful is an initiative taken by eminent Kuwaiti and Pakistani business houses to offer Hajj and Umrah takaful saving plans to middle and low middle income Muslims especially from Pakistan supported with an end to end value chain to facilitate the customers in Pakistan and in Saudi Arabia throughout pilgrimage. The company aspires to become the leading Takaful player in the country through innovative Takaful products for its customers while complying with Shari’ah guidelines and globally accepted best practices. A few renowned groups; Kuwait International Investment Company (KIIC), 5th Pillar Holdings representing IFA group of Kuwait, Muhammadi family and associates are shareholders. The shareholders have a strong commitment towards the company, as reflected by their upfront equity injections. IFA Group is leading a consortium of 10 listed Kuwaiti companies with total market capitalization peaked at USD 6.6bln. The largest shareholder of Kuwait International Investment Company (KIIC) is Kuwait Investment Authority (KIA) which is a Government of Kuwait owned sovereigns investment entity having AUMs of USD 800bln. The sponsors consider Pakistan to be a strategic market for its business and sees growth opportunities. A strong governance structure has been put in place and a professional management team has been assembled. The team will also strive to develop innovative saving products that will be tailored to meet the needs of its customers and may include: children education plans, marriage savings plans, retirement and pension plans, group life and pay continuation. The Company will be focusing on cutting-edge technology and digital marketing to reach out to customers, resulting in increased customer engagement and loyalty. The performance of the company will be unfolding in future, which is essential for future ratings.

The ratings are dependent on the continued tangible support and guidance from the key sponsors. The successful unfolding of the model is of absolute necessity. The equity of the company needs to be kept liquid and in safe investment avenues.

Disclosure	
Name of Rated Entity	5th Pillar Family Takaful Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology Life Insurance Rating(Mar-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Life Insurance(Jun-22)
Rating Analysts	Muhammad Noor Ul Haq noorulhaq@pacra.com +92-42-35869504

Profile

Legal Structure 5th Pillar Family Takaful Limited ("5th Pillar" or "the Company") is a public unlisted company.

Background 5th Pillar is a noble initiative by eminent Kuwaiti and Pakistani business houses to facilitate Hajj and Umrah to middle and low middle income Muslims. 5th Pillar was incorporated on March 5, 2020 under the Companies Act, 2017. The Company received its Takaful operator license from SECP in Oct'21.

Operations The principal activity of the Company is to provide Shariah-compliant products of life insurance (family takaful). Company's flagship products will be for Hajj and Umrah Saving plans. Company will also offer full spectrum of protection and saving products that are in line with the market needs and may include Children Education Plans, Marriage Saving Plans, Retirement and Pension Plans, Group Life and Pay Continuation.

Ownership

Ownership Structure The Company is jointly owned by local and foreign partners. The Company is (41.75%) owned by Kuwait International Investment Authority. While (26.25%) of the stake is owned by 5th Pillar Holdings Limited (a Dubai International Financial Centre (DIFC)) followed by Mr. Muhammad Ali Muhammadi and associates (32%).

Stability Since Company is not family-owned business, the ownership structure is expected to remain stable over the number of years to ensure sustainability.

Business Acumen Company is backed by renowned business houses and high-profile businessmen from Kuwait and Pakistan. Sponsors of 5th Pillar Holdings include IFA Group (Kuwait Strategic Partner) which is leading a consortium of 10 listed Kuwaiti companies with total market capitalization peaked at USD 6.6bln. Present in Middle East, Africa, Europe and USA, IFA Group activities include Investment, Corporate Finance, Asset Management, Real estate development, Hotels and Resorts development, Insurance and Consumer Finance. The largest shareholder of Kuwait International Investment Company (KIIC) is Kuwait Investment Authority (KIA) which is a Government of Kuwait owned sovereigns investment entity having AUMs of USD 800bln.

Financial Strength With the additions of these shareholders, the commitment to the Sponsors' vision for facilitating hajj is further strengthened financially. The financial muscle is deliberated strong due to the association of Kuwaiti shareholders and prominent members of Tabba Family & Muhammadi Family. It extends financial, technological, and advisory support to the Company.

Governance

Board Structure The Company has a strong Board of Directors and strong representation from the sponsor groups. It has 8-member board, comprises non-executive directors except the CEO. The board has constituted three board committees. It also has sponsors dominated advisory committee.

Members' Profile The Chairman of the board, Mr. Saleh Saleh Naser Al-Selmi is a staunch leader in the areas of finance & investment with commendable experience in managing highly reputable insurance projects at the strategic level. Mr. Al-Selmi is currently Vice Chairman and CEO at International Financial Advisors Holding (IFA), Vice Chairman at Umm Al Hayman for Wastewater Treatment Company, Board member at Automated Systems Company, Addax Bank (Kingdom of Bahrain). He is chairman at Union of Investment Companies, Kuwait. He has previously held positions in many high-profile companies.

Board Effectiveness Board committees meet on monthly basis and minutes of the meetings are documented.

Financial Transparency The Company's External Auditor, M/s KPMG issued an unqualified opinion on the financial statements for the year ended Dec-21.

Management

Organizational Structure The Company has a lean organizational structure. Coherent reporting lines have been established in order to enhance operational efficiency. Operations of the Company are divided into following departments; i) Information Technology, ii) Finance, iii) Human Resource iv) Admin, and v) Marketing vi) Compliance, vii) Customer services, viii) Underwriting, ix) Actuarial services, x) Sales and xi) Operations. Head of Operations (HOO), Head of Finance (CFO), Head of IT, Head of Marketing, Head of actuarial services and Chief commercial officer directly report to the CEO.

Management Team Mr. Nasar us Samad Qureshi, the Chief Executive Officer (CEO), holds over 3 decades of insurance industry experience. He served as the CEO of Alfalah Insurance Company Limited (Pakistan). He is assisted by a team of professionals.

Effectiveness Management committees meet as and when required. The minutes of the meetings are documented.

Claim Management System Given the initiation of operations, claim management system is at a nascent stage.

Investment Management Function 5th Pillar has outsourced its investment management function to Al-Meezan Investment Management Limited, standing as the first and largest Shariah-Compliant Asset Manager in Pakistan.

Risk Management Framework 5th Pillar Family Takaful aspires to become the leading Takaful player in the country through innovative Takaful products for its partners and the masses while complying with Shari'ah guidelines and global standards providing trustworthy services to all Stakeholders.

Business Risk

Industry Dynamics Gross Premium of the Life Insurance industry in Pakistan stood at PKR ~227bln during 9MCY22 (9MCY21: PKR~176bln; CY21: PKR~288bln), showing a YoY growth of ~29%. In terms of gross premium type wise bifurcation i.e., between regular premium products (1st year premium, second year renewal premium and subsequent year renewal premium), single premium products and group life policies, ~46% of the total premium pertained to renewal premium products.

Relative Position Company is in the initial phase of the business since its inception. With the commencement of operations, market share of the Company will be analyzed on the basis of GPW and success of the management to achieve the targets.

Persistence Persistence of the Company can be analyzed when operations of the Company will begin.

Revenue The Company aims to generate the revenue primarily from sale of flagship product i.e., Hajj and Umrah saving plans. Company will also diversify its revenue stream from sale of other protection and saving products which are in line with the market needs.

Profitability The Company incurred net profit of PKR 3mln during CY21. The profitability has been mainly derived from investment income amounting to PKR 26mln and other income amounting to PKR 5mln (CY20: PKR 0.09mln). Company recorded marketing and admin expenses of PKR 20mln (CY20: PKR 14mln) and other expenses of PKR 1mln (CY20: PKR 0.8mln). Net loss of PKR 27mln was reported during 6MCY22. This is due to momentous increase in marketing and admin expenses amounting to PKR 49mln during 6MCY22 coupled with other expenses amounting to PKR 2mln.

Investment Performance The Company earned an investment income of PKR 25mln during 6MCY22 (CY21: PKR 26mln). Company has invested the majority of the funds in term deposits and government securities. Return on term deposits during 6MCY22 is PKR 22mln (CY21: PKR 21mln).

Sustainability Going forward, 5th Pillar intends to sustain growth stance, with an increasing focus on new avenues. The management is planning to increase market share by developing need-based products. For the retention and enhancement of products' features, due diligence is in process between the management and advisory committee.

Financial Risk

Claim Efficiency The Company has started business operations recently that's why there has been no claim reported. As per the management of Company, there is a slight margin of claims that may arise by policyholders of flagship products i.e., Hajj and Umrah.

Re-Insurance 5th Pillar has reinsurance arrangements with international re-insurer provider "Hannover Re" (rated "AA-" by S&P).

Cashflows & Coverages As at end-Jun22, 5th Pillar has an investment portfolio of PKR 566mln (end-Dec21: PKR 674mln), out of which 80% is invested in Term deposits (TDR) while 12% in Govt. securities and 8% in cash and banks. A substantial portion of investments is readily marketable thereby extending it good liquidity support.

Capital Adequacy 5th Pillar was incorporated with the minimum paid-up capital requirement of PKR 700mln. The Company had issued Right Shares amounting PKR 1.3bln which was completed subsequent to the year ended December 31, 2022, increasing the total paid-up capital to PKR 2bln. The Company has an equity base of PKR 657mln as at end-Jun22 (end-Dec21: PKR 688mln).



5th Pillar Family Takaful Limited
Private Limited Company

Jun-22	Dec-21
6M	12M

A BALANCE SHEET

1 Investments	566	1,349
2 Insurance Related Assets	-	-
3 Other Assets	18	43
4 Fixed Assets	169	0
Total Assets	753	1,392
5 Underwriting Provisions	-	-
6 Insurance Related Liabilities	-	-
7 Other Liabilities	9	17
8 Borrowings	88	-
Total Liabilities	97	17
Equity	657	688

B INCOME STATEMENT

1 Gross Premium Written	-	-
2 Net Insurance Premium	-	-
3 Underwriting Expenses	-	-
Underwriting Results	-	-
4 Management Expenses	(50)	(21)
5 Investment Income	25	27
6 Other Income / (Expense)	(1)	5
7 Net Change in Reserve for Policyholders' Liabilities	-	-
Profit Before Tax	(25)	11
8 Taxes	(3)	(7)
Profit After Tax	(28)	3

C RATIO ANALYSIS

1 Profitability		
Loss Ratio (Net Insurance Claims / Net Insurance Premium)	N/A	N/A
Combined Ratio (Loss Ratio + Expense Ratio)	N/A	N/A
2 Investment Performance		
Investment Income / Operating Profit	-103.8%	452.7%
3 Liquidity		
(Liquid Assets - Borrowings) / Outstanding Claims	N/A	N/A
4 Capital Adequacy		
Liquid Investments / Equity	0.76	1.86

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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(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)

(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)

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(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)

(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)

(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)

Monitoring and review

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)

(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(F-VII)

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