



The Pakistan Credit Rating Agency Limited

Rating Report

Dawood Family Takaful Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Jun-2023	A+ (ifs)	-	Stable	Maintain	-
29-Jun-2022	A+ (ifs)	-	Stable	Maintain	-
31-Mar-2022	A+ (ifs)	-	Stable	Harmonize	-
29-Jun-2021	A	-	Stable	Maintain	-
29-Jun-2020	A	-	Stable	Maintain	-
20-Dec-2019	A	-	Stable	Maintain	-
21-Jun-2019	A	-	Stable	Upgrade	-
27-Dec-2018	A-	-	Positive	Maintain	-
12-Jun-2018	A-	-	Stable	Maintain	-
11-Dec-2017	A-	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The assigned rating incorporates Dawood Family Takaful Limited's (Dawood Family Takaful) strong capacity to meet policyholder and contractual obligations while reflecting its ability to continue enhancing takaful volumes. Despite the challenging operating environment, Dawood Family managed to maintain its topline at PKR~ 2,070mln (CY21: PKR~ 2,047mln). Over the years, the Company has experienced growth and aims to further enhance its profitability by expanding its reach. The management has set its sights to establish strong footprints in Punjab, KPK and Karachi regions in order to garner increased business. Moreover, a sound IT infrastructure provides support to the operational efficacy of Dawood Family Takaful. The Company reaps benefits from its brand image, impetus in building retail penetration. The rating captures the resilience of the Company over the years and also factors in adequate risk absorption capacity. Liquidity of the Company remained stable and the portfolio of investments is beefed up with government securities. Rating also takes into account the track record and presence of an experienced management team which possesses considerable experience in the takaful business.

During FY23, Pakistan's Life Insurance sector faced challenges due to an unexpected rise in inflation which led to a decrease in disposable incomes. To adapt, sector players shifted their focus from first-year growth to second-year, prioritizing enhanced top-line performance. During the said period, unit-linked products remained attractive, offering fixed-rate investment opportunities amidst high policy rates. The sector's outlook is expected to remain Stable, supported by investment income in the next financial year. However, muted economic growth could adversely impact the sector if not timely mitigated.

The rating is dependent upon continued improvement in the Company's system share, surplus in takaful fund, and sustained liquidity position. At the same time, upholding strong governance practices are critical.

Disclosure

Name of Rated Entity	Dawood Family Takaful Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology Rating Modifiers(Jun-22),Methodology Life Insurance Rating(Mar-23)
Related Research	Sector Study Life Insurance(Jun-22)
Rating Analysts	Muhammad Noor Ul Haq noorulhaq@pacra.com +92-42-35869504

Profile

Legal Structure Dawood Family Takaful Limited, an unlisted Shariah-compliant Family Takaful operator, commenced operations beginning 2009.

Background Dawood Family Takaful Limited was incorporated in Pakistan as an unquoted public interest company in 2007 under the Companies Ordinance, 1984. The Company received the certificate of registration in 2008 under the provision of the Insurance Ordinance, 2000.

Operations The principal activity of the Company is to undertake family takaful business. Dawood Family Takaful operates through a network of 73 branches majorly divided into North, Central and South, with majority of the revenue coming from the central region.

Ownership

Ownership Structure The majority of the stake~50.4% is held by First Dawood Group, followed by financial and non-financial institutions~22.01%, Directors hold a stake of 13.65%, while foreign companies~8.09% and individuals hold a stake of~5.85%.

Stability The shareholding structure of the Company has been stable over the period with the majority stake residing with First Dawood Group.

Business Acumen First Dawood Group (FDG) is one of the well-known business groups in Pakistan. FDG has experience operating financial institutions namely B.R.R. Guardian Modaraba, First Dawood Investment Bank Ltd & 786 Investment Ltd.

Financial Strength The Ownership structure drives strength through robust financial foundation for the Company. More than 50% of stake lies with First Dawood Group. It facilitates streamlined decision-making processes, enabling swift responses to market dynamics. The dominant group can align strategic initiatives, propelling long-term growth and bolstering the company's financial stability.

Governance

Board Structure The overall control of the Company vests in seven-member Board of Directors, including the CEO. The Board includes 1 nominee director from First Dawood Group & 1 Nominee from Bank of Khyber, 1 Executive Director – CEO, 2 Non-Executive Directors and 2 Independent Directors.

Members' Profile Mr. Ayaz Dawood is the Chairman of the board. He has vast experience in the financial sector in Pakistan and Canada. He is the Chief Executive Officer of B.R.R Investments (Private) Limited, managing BRR Guardian Modaraba.

Board Effectiveness The board committees convene on a quarterly basis, ensuring that minutes are meticulously documented for each meeting. The board members' collective attributes, including their expertise, industry insights, strong decision-making skills, governance focus, and the trust they inspire among stakeholders, greatly enhance the organization's financial management, strategic planning, and long-term sustainability.

Financial Transparency The External Auditor M/s BDO Ebrahim & Co, Chartered Accountants, has expressed an unqualified audit opinion for the period ended Dec'22.

Management

Organizational Structure Dawood Family has a well-defined organizational structure and segregated reporting lines have been established in order to enhance operational efficiency. The Company has five management committees, a) Underwriting Committee, b) Claims Committee, c) Risk Management & Compliance Committee, d) Human Resource Committee, and e) Re-Takaful Committee.

Management Team The management team comprises high profile experienced professional and most of them have been hired from other insurance companies and financial institutions. The CEO Mr. Ghazanfar-UL-Islam has been associated with the Company for the last fourteen years. He has over Twenty years of professional experience of financial and strategic management with over Fifteen years at the key management positions.

Effectiveness The Management Committee convenes on a monthly basis, leveraging their collective expertise to ensure efficient operations, strategic decision-making, and effective risk management. This collaborative effort plays a vital role in driving the Company's growth, enhancing profitability, and ensuring sustainability.

Claim Management System The claims of policyholders on the Waqf are entered into the system after intimation by the customer. The apportionment of the claim to retakaful operator's share is done automatically by the system. On the other hand, the claims on Participants' Investment Fund (PIF) can be made through partial or full redemption of units held in Personal Investment Account (PIA).

Investment Management Function The Investment Committee (IC), comprising an appointed Actuary, 2 BoD members, CEO, CIO & CFO, is responsible for the implementation, modification, and execution of investment policy with respect to (i) Shareholders Fund (ii) Waqf Fund – Group and Individual, and (iii) PIF. Management ensures optimum asset/liability matching. According to the investment policy, the waqf fund invests in low-risk securities.

Risk Management Framework Risk is managed at department level, where every department has developed its own statement of risk tolerance, approved by the CEO. The Company uses an In-House developed operating software to handle the operations relating to underwriting, claims administration, retakaful transactions, policy administration and unitized investment funds. Software runs on real time basis supported by Oracle.

Business Risk

Industry Dynamics In CY22, the net premium of the Life Insurance industry was reported at~ PKR 364bln, indicating a notable growth of~ 28.6% YoY (CY21: PKR~283bln). Similarly, the gross premium of the industry stood at PKR~ 370bln in CY22, showing growth of ~28.5% compared to PKR 288 bln in CY21. Regarding claims, the net claims of the life insurance industry in CY22 amounted to PKR~ 270bln, representing an increase from PKR~ 181bln in CY21. Furthermore, the total investment book of the insurance industry reached to PKR~ 1,680bln in CY22, demonstrating growth from PKR~ 1,440bln in CY21. Overall, life Insurance industry in Pakistan operates with a distinction between the Public and Private sectors. The sector has experienced significant growth in terms of premiums, claims, and investments, underscoring its significance within the country's financial landscape.

Relative Position Dawood Family holds strong position in the market having total asset base of PKR~ 8,327bln in CY22.

Persistency During CY22, Company's first year persistency clocked at 51.2%, witnessing an increase of 3.6% compared to same period last year (CY21: 47.6%). However, subsequent year's persistency dropped to 79.8% in CY22 as compared to 84.3% in CY21.

Revenue During CY22, Company reported revenue of PKR~ 2,070mln witnessing a slight increase as compared to previous year (CY21: PKR~ 2,047mln). Whereas, Dawood Family reported takaful operator fee of PKR~ 822mln overserving growth of 0.39% as compared to previous year (CY21: PKR~ 819mln).

Profitability During CY22, the Company earned takaful fee of PKR~ 822mln witnessing a slight increase (CY21: PKR~ 819mln). Dawood family PBT clocked to PKR~ 51mln witnessing an increase of PKR~ 6mln as compared previous year (CY21: PKR~ 45mln). Company paid tax of PKR~ 27mln (CY21: PKR~10mln), during the period Company's PAT stood at PKR~ 23mln witnessing a dip of PKR~ 12mln (CY21: PKR~ 35mln). A decrease in bottom line owing to high tax rates during the year.

Investment Performance Company's investment book stood at PKR~ 7,057mln in CY22 (CY21: PKR~ 6,593mln). Investment book is majorly concentrated with equity investment ~27.1%, followed by government sukus ~26.8%, Debt Sukus ~21.7%, TDR's ~ 18.8% and investment property and others surged to ~5.7%.

Sustainability The management aims to establish a robust presence in the Punjab region, with the goal of strengthening the business and enhancing profitability. Despite the current uncertain political and economic climate, the Company intends to maintain its market share. To achieve this, the Company has motivated its sales force and introduced small incentives to make their products more appealing.

Financial Risk

Claim Efficiency During CY22, Company's claims efficiency ratio clocked to 56.4X witnessing increase as compared to the previous year (CY21: 44.1X, CY20: 84.1X, CY19: 47.5X). The fluctuating trend in claims efficiency ratio owing to instability in outstanding claims.

Re-Insurance Dawood Family Takaful has in place reinsurance treaty arrangements with Munich Re (AA- by S&P) and Hannover Re (AA- by S&P).

Cashflows & Coverages In CY22, the liquidity ratio stood at ~1.0x, indicating that the Company's liquid assets were sufficient to cover its policyholder's liabilities (CY21: 1.1x, CY20: 1.1x).

Capital Adequacy Paid-up capital of the Company stood at PKR 750mln, well above from the regulatory minimum requirement. As of end-Dec22, the net shareholder's equity of the Company clocked in at PKR 544mln (CY21: PKR 526mln, CY20: PKR 491mln).



Dawood Family Takaful Limited

	PKR mln	PKR mln	PKR mln	PKR mln
	30-Dec-22	31-Dec-21	30-Dec-20	31-Dec-19
BALANCE SHEET				
Investments				
Liquid Investments	6,658	6,449	5,898	4,876
Others (Sukuk - non-liquid)	399	144	71	71
	7,057	6,593	5,969	4,947
Insurance Related Assets	175	168	93	139
Other Assets	1,044	782	762	429
TOTAL ASSETS (SHF + PTF)	8,276	7,542	6,823	5,514
Equity	544	526	491	414
Balance of Takaful Statutory Funds	6,856	6,283	5,746	4,694
Insurance Related Liabilities	380	315	222	107
Other Liabilities	458	418	363	298
TOTAL EQUITY & LIABILITIES (SHF + PTF)	8,238	7,542	6,823	5,514
INCOME STATEMENT - Extracts				
REVENUE ACCOUNT				
Gross Contribution Written (GC)	2,070	2,047	1,834	1,636
Participants Investment Fund (PIF)	(1,287)	(1,224)	(1,051)	(928)
Retakaful Expense	(128)	(124)	(95)	(63)
Wakala Fee	(553)	(566)	(519)	(475)
Net Claims	(202)	(179)	(125)	(275)
Operating Income/(Expenses)	135	124	135	124
Investment Income	86	37	80	89
Technical reserves incurred during the year	(78)	(49)	(123)	(125)
Surplus Before Distribution	42	67	137	(17)
PROFIT AND LOSS (INCLUDING SHAREHOLDERS FUND)				
Profit/(Loss) before Tax	51	45	89	51
RATIO ANALYSIS				
Underwriting Results				
Loss Ratio	31%	26%	18%	43%
Combined Ratio	107%	96%	92%	116%
Performance				
Operating Ratio	94%	90%	80%	103%
Investment Yield (SHF + PTF)	4%	3%	10%	8%
Persistence - First Year	51%	48%	51%	62%
Persistence - Second Year	80%	84%	81%	83%
Liquidity & Solvency				
Liquidity Ratio – times	1.0	1.1	1.1	1.1

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

Restrictions

(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)

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)

(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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