

PQGT – COMMENTS ON DRAFT PROSPECTUS

A. Clarifications on the Draft Prospectus

1. Retail Portion—Full Underwriting Clarification

While the draft states that the retail portion is “fully underwritten,” no underwriter is identified. If the retail portion is undersubscribed, who will take up the unsubscribed shares, and at what price?

The details of the Underwriter have been disclosed on the first page of the Prospectus as well as in Section 9. In the event that the retail portion of the Issue remains unsubscribed, the Underwriter shall subscribe to the unsubscribed shares at the Strike Price determined through the Book Building process.

2. Summary of Key Financial Indicators

To support retail investors, please include a simple one-page summary table showing for the past 3–5 years:

- o Gross contributions written
- o Net profit after tax
- o Earnings per share (EPS)
- o Dividend paid (if any)
- o Shareholders’ equity

The table containing the above-mentioned information, along with other key financial information for the preceding three years, has been incorporated in Section 2.8, “Financial Information,” of the Prospectus.

3. Operating Cash Flow Explanation

The Company reported negative operating cash flows in 2023 and 2024 despite accounting profits. Please explain, in simple terms, the reasons behind this and when positive operating cash flow is expected.

The negative operating cash flow in 2023 and 2024, despite reporting accounting profits, is temporary and reflects the nature of the Takaful business model. In Takaful, the timing of claims (when payments are made) often does not align with the timing of cash inflows from contributions. This mismatch, along with additional outflows for re-takaful, commissions, and administrative expenses, also impacts operating cash flow on specific period.

In 2023, the negative cash flow of PKR 53 million was primarily due to higher claims payments of PKR 843 million, which resulted from increased claims expenses of PKR 666 million. However, in 2024, this negative cash flow decreased sharply to PKR 8 million, as claims payments reduced to PKR 625 million, and claims expenses fell to PKR 401 million. This indicates that the claims situation is normalized, and we expect operating cash flows to continue improving in 2025.

4. Breakdown of IPO Proceeds

Please provide approximate percentages or amounts allocated to:

- o Branch expansion
- o IT / digital transformation
- o Working capital
- o Other specified purposes

The breakdown of the utilization of IPO proceeds, along with the relevant percentages, has been disclosed in Section 2.5.2, “Utilization of IPO Proceeds,” of the Prospectus. Furthermore, a more detailed breakdown, providing further particulars under each head of utilization, is presented in Section 4.3, “Utilization of IPO Proceeds.”

5. Dividend Expectations

The prospectus indicates a preference for issuing bonus shares to meet capital requirements instead of paying cash dividends. Should investors expect any cash dividends in the next 2–5 years? If yes, what is the expected payout range?

The Company aims to declare a cash dividend of PKR 1 per share in 2025. Thereafter, the Company intends to issue bonus shares to progressively meet the SECP's minimum paid-up capital requirements, subject to financial performance, liquidity, and requisite Board and shareholder approvals. Future-dividend declarations will be subject to various factors, including the Company's financial performance, availability of adequate liquidity, recommendations made by the Board of Directors, and approvals from shareholders, where applicable.

6. Supreme Court Case on Sales Tax

The prospectus notes a potential PKR 949 million sales tax liability subject to a pending Supreme Court decision. Please provide the latest status of the case and the date of the next hearing.

We would like to clarify that the sales tax liability of PKR 949 million relates to Pak-Qatar Family Takaful Limited (PQFTL) and not Pak-Qatar General Takaful Limited (PQGTL). The reference in PQGTL's Prospectus was inadvertently carried over from PQFTL, and the information has been appropriately updated in all relevant disclosures.

The Company's provincial sales tax cases relating to business activities covered under the Participant Takaful Fund (PTF) are disclosed in Note 21 to the financial statements for the year ended 2024, and the relevant accounts have been included in the Prospectus. For ease of reference, the details are also incorporated in section 2.9 & 8.1 of the prospectus.

B. Additional Clarifications on Business, Valuation & Governance

1. Legal & Tax Liabilities

With respect to the provincial sales tax exposure of PKR 949.44 million, what is the expected timeline and likely outcome of the Supreme Court proceedings? If the outcome is unfavourable, how will the obligation be funded—through reserves, equity, or participant contributions?

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As these cases are currently sub judice before the Court, it is not possible to provide a definitive timeline, as the proceedings are subject to the Court's procedures and schedule. However, based on the merits and facts of the cases, management is confident that the outcome will be in the Company's favor. In the event of an unfavorable outcome, as the contributions and the related provincial sales tax matters pertain to business activities of the Participant Takaful Fund, any adverse financial impact would be reflected in the PTF.

2. Pending Legal Cases

Four pending legal cases totalling PKR 146 million are disclosed. What is the probability of an adverse judgment? Are there any additional pending or potential matters not disclosed in the draft prospectus?

We would like to inform you that one of the legal cases, involving a claim of PKR 14 million, has been decided in favour of the company. Regarding the remaining cases, we are confident that these matters will be resolved in favour of the company, based on the facts and circumstances surrounding each case.

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included in the Prospectus. For ease of reference, the details are also incorporated in section 2.9 & 8.1 of the prospectus.

3. Use of IPO Proceeds & ROI

IPO funds are intended for software, marketing, HR, branch expansion, and other initiatives over five years. What financial returns (ROI) are expected from each category, and which KPIs will be used to measure success?

We understand that the deployment of IPO funds to achieve the outlined growth targets involves navigating certain challenges. We are committed to adapting our strategies as necessary to ensure the efficient use of capital and sustainable growth.

The IPO proceeds will be deployed over five years to strengthen core infrastructure, expand the distribution footprint, enhance operational capacity, and develop new takaful products, digital infrastructure, upgradation of portals, branch transformation. The expected financial returns (ROI) and key performance indicators (KPIs) for respective category are outlined below.

1. Software & Technology Enhancements

Expected Financial Returns (ROI):

- *Reduction in operating costs through automation and digitization.*
- *Improved scalability, enabling growth in GWP without proportional increase in overhead.*
- *Incremental GWP contribution from digital channels.*

Key Performance Indicators (KPI):

- *Cost per policy / cost per claim reduction*
- *Customer Applications / Portals engagement/usage rate*
- *Data analytics reports for decision making*
- *Digital channel share of total GWP*

2. Marketing & Business Development

Expected Financial Returns (ROI):

- *Contribution uplift from branding, market visibility, and targeted acquisition campaigns.*
- *Enhanced customer acquisition efficiency and retention improvement.*

Key Performance Indicators (KPI):

- *Customer acquisition cost (CAC)*
- *Marketing ROI*
- *Lead-to-policy conversion rate*
- *Retention/renewal rate*
- *Contribution of marketing-driven business to total GWP*

3. Human Capital Development

Expected Financial Returns (ROI):

- *Strengthened underwriting and claims expertise, resulting in improved loss ratio performance.*
- *Reduction in recruitment, onboarding, and turnover costs.*
- *Onboarding fresh blood in distribution to increase penetration.*

Key Performance Indicators (KPI):

- *Revenue per employee*
- *Number of policies per employee*
- *Employee turnover rate*
- *Underwriting quality metrics*
- *Customer feedback & claim handling*
- *Loss ratio trend*

- *Training and certification completion levels*

4. *Branch Expansion & Distribution Network Strengthening*

Expected Financial Returns (ROI):

- *Incremental GWP growth from newly opened branches.*
- *Improved access in underserved regions and enhanced customer servicing.*

Key Performance Indicators (KPI):

- *GWP per branch*
- *Time-to-break-even for new branches*
- *Number of active intermediaries (agents, brokers, POS)*
- *Regional penetration and coverage metrics*

5. *Development of New Takaful Markets: Cyber, Home, Retail, and Travel etc.*

These initiatives target high-growth areas currently underserved in the domestic takaful market.

Expected Financial Returns (ROI):

- *New product lines expected to contribute 5–8% of total GWP by Year 5.*
- *Diversification benefits leading to improved portfolio stability and risk spread.*
- *Enhanced fee-based income (wakalah) from new segments.*

Key Performance Indicators (KPI):

- *Product-wise GWP contribution (Cyber, Home, Retail, Travel)*
- *Customer acquisition and penetration rates within each segment*
- *Loss ratio performance of new product lines*
- *Cross-sell and upsell ratios to existing customers*
- *Market share gain in emerging takaful segments*

We recognize that deploying IPO proceeds to achieve the outlined growth objectives requires careful planning and execution. While we are confident in the potential for significant returns, we also understand the challenges and uncertainties inherent in such a transformative journey. We are confident that, with the right execution, these investments will position the company for sustainable success, delivering value for both shareholders and stakeholders.

4. *Related Party Transactions*

Transactions with associated companies are stated to be “at arm’s length.” What controls and governance mechanisms are in place to ensure fair pricing and prevent conflicts of interest?

With reference to related party transactions, it is important to note that Pak Qatar General Takaful Limited (PQGTL), Pak Qatar Family Takaful Limited (PQFTL), and Pak Qatar Asset Management Company Limited (PQAMCL) operate distinct businesses within their respective regulated sectors. Under the prevailing regulatory framework, a company engaged in General Takaful (non-life) business is prohibited from simultaneously conducting Family Takaful (life) business, Asset Management, or Investment Advisory services. Moreover, PQGTL does not hold equity shares in PQFTL or PQAMCL, and vice versa, ensuring clear separation between these entities.

Accordingly, the associated companies involved in material related party transactions operate independently, without overlapping business interests, and maintain separate management teams, systems, and governance structures. This organizational independence is crucial to avoid conflicts of interest and maintain the integrity of transactions.

In line with regulatory requirements, including the Companies Act, 2017, regulation, and best practices of corporate governance, the company has implemented a policy to govern related party transactions, which covers transaction categories, approval thresholds, pricing methodologies, conflict of interest disclosure, to maintain sanctity of arm’s length transactions.

Additionally, all material transactions with associated companies are subject to review and recommendation by the Audit Committee before being presented for approval by the Board of Directors, on periodic basis. These transactions are also disclosed in the financial statements to ensure full transparency.

5. Valuation Assumptions—Sensitivity Analysis

The DCF valuation assumes a 3.5% long-term growth rate and a 15.46% cost of equity. How sensitive is the valuation to changes in these inputs? Is a sensitivity analysis available?

The FCFE valuation is inherently dependent on key assumptions, including the long-term growth rate and the cost of equity and variations in these inputs would result in corresponding changes in the valuation outcome.

6. Competitive Positioning

With a 0.55% market share in the general insurance sector, what strategic initiatives will the Company pursue to expand market share amid significant competition from established conventional insurers?

*It is true that the Company operates in a significantly competitive environment with established conventional insurers. Let's rephrase this; the Company operates as an **established dedicated takaful operator** in a significantly competitive environment with established conventional insurers.*

While aspiring to achieve a steady growth in Gross Written Contribution alongside consolidating upon the Contributions written each year, the management is also focused towards a steady and a consistent increase in the Company's bottom line profits over the years. The projection section of the prospectus reflects the same in the numbers produced.

The Company's positioning as an established dedicated takaful operators amongst the only two (2) in the market would help achieve the above, rather penetrate further to increase market share in an environment where momentum is shifting towards inclusion in the Shariah compliant financial eco- system, not limited to Islamic Banking, infact all aspects including insurance as well. The same is demonstrated by the statistical numbers below;

PKR Bn	CY 22	CY 23	CY 24	YoY % (22 – 23)	YoY % (23 – 24)
General					
Conventional	157	202	212	28.7%	5.0%
Takaful (incl. Window)	21	25	31	19.0%	24.0%
	178	227	243	27.5%	7.0%
Life					
Conventional	334	356	368	6.6%	3.4%
Takaful (incl. Window)	41	48	66	17.1%	37.5%
	375	404	434	7.7%	7.4%

Source: SECP, Insurance Association of Pakistan (IAP)

The momentum as discussed is towards the Shariah compliant insurance solutions, where total premium/contributions written by the takaful segment (Incl. Window) during CY24, witnessed an increase of 24% and 37.5% under general and life business, respectively. The conventional insurance on the other hand showed an increase of just 5% and 3.4%, respectively. To add on, this is on the face of an increase of 7% and 7.4% under general and family business, further substantiating the momentum shift i.e. the existing policyholders' converting to takaful from conventional.

With above strategic positioning as detailed above, the management as is also evident from the utilization of proceeds section, is focused on the following strategies to penetrate and increase its market share;

- *Digital Transformation and Customer Experience Enhancement,*
- *Hiring under digital sales and strengthening existing corporate and retails sales team,*
- *Increasing our investment in digital sales channels, to compete effectively with conventional insurers, recognizing that in today's environment it is not merely the fastest player that succeeds, but the smartest one,*
- *Transformation of existing branches and opening up on new branches,*
- *Brand Positioning and Market Visibility*

In addition to above the Company intends to introduce new market initiatives and specialized products, introduce new cross-selling offers and Collaborations with other takaful operators for Co-Takaful and Facultative Business.

At this stage, we would like to take this opportunity to draw your attention to the positive effects of Initial Public Offerings (IPOs) and listing on the Pakistan Stock Exchange (PSX) in relation to the discussion at hand. Beyond the well-known benefits such as enhanced brand recognition and better optics, one of the most immediate and impactful benefits of going public is the enhanced capital base.

This capital influx from IPO will not only support the execution of business growth strategy outlined above & in prospectus but will also provide the financial strength necessary to achieve an upward evaluation of the company's IFS (Insurance Financial Strength) rating by rating agencies. Simultaneously, this enhanced capital base will help the company to negotiate with re-takaful operators for better treaty terms, resulting in more favourable conditions for risk management. With the capital enhancement of PKR 201 million in the current year and the ongoing activities for PKR 300 million IPO, the renewal of the 2026 re-takaful agreements demonstrates that the company has secured an increased capacity for co-takaful and facultative arrangements, raising the overall capacity from 50% to 75%. This represents a higher level of capacity compared to the co-insurance and facultative limits typically available to conventional insurers.

Such enhancements will have far-reaching effects on several business functions. It will significantly increase the company's underwriting capacity, enabling it to take on larger policies and higher-value business. Additionally, the company will be in a stronger position to engage in co-takaful and facultative business on a larger scale, which will allow for greater flexibility in risk-sharing and exposure. This improved financial standing will also provide the company with the flexibility to expand into new sectors or emerging market segments that require specialized takaful products, thereby diversifying its portfolio and growth opportunities.

We are optimistic that the combination of a stronger capital base, improved IFS rating, and enhanced underwriting capacity will drive growth trajectory in many-fold aspects of business topline, co-takaful & facultative business, large portfolios, market share, overall profitability and eventually value for shareholders and stakeholders alike.