



ARGUS CREDIT RATING SERVICES LTD.

Credit Rating Report

Provati Insurance Company Limited

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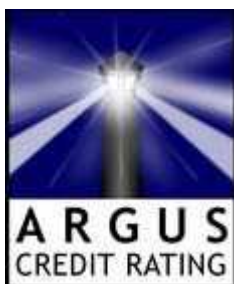
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Ref No	ACRSL13276/16
Company Name	Provati Insurance Company Limited
Assigned Ticker	PROVATIINS
Activity	Non-Life Insurance Business
Incorporated On	October 18, 1999
Head Office	Khan Mansion (11th Floor), 107 Motijheel Commercial Area, Dhaka-1000, Bangladesh.

Rating Type	Corporate/Entity
Rating Validity	22 Sep 2017
Analyst(s)	ACRSL Analyst Team
Committee(s)	ACRSL Rating Committees

RATINGS SUMMARY

CREDIT RATING	CURRENT	PREVIOUS
Long-Term	AA-	A+
Short-Term	ST-2	ST-2
Publishing Date	22 Sep 2016	21 Sep 2015

RATINGS EXPLANATION

AA-	Long term: Very high claims paying ability. Protection factors are strong. Risk is modest, but may vary slightly over time due to underwriting and/or economic condition.
ST-2	Short Term: High claims paying ability. Protection factors are good and there is an expectation of variability in risk over time due to economic and/or underwriting conditions.

Rating Validity : This validity assumes no additional loan over that disclosed in Q2FY16 [ending June 30] audited/management certified balance sheet and that management has disclosed all material & adverse to financials since Q2FY16.

Executive Summary:

Strength:

- **Decade long expertise and experienced technocrats has helped PICL to build a strong customer base.** Provati Insurance Company Limited (PICL) is one of the reputed insurance companies of the country. The company has been highly focused on its core business, insurance business. The company has captive customer base consisting of different companies. PICL is primarily staffed with professionals with long experience, qualified insurance technocrats and a team of skilled personnel. As a consequence company's Gross premium has increased from BDT 332.7 MN in FY14 to BDT 405.1 MN in FY15, representing a YoY growth of 21.8% which is positive in our view.
- **Historically, PICL has maintained healthy loss reserve to total assets ratio compared to its peer group,** which is positive in our view. During the last three years, the ratio reached to 16.85% in FY15 from 16.21% in FY13. It indicates the financial cushion against the total assets of the company has been high during last three years.

Concerns:

- **PICL's substantial insurance claims over the years, remains as a concern.** PICL's fire insurance claims fluctuated over the past three years. On the other hand the company's claim to net premium ratio stayed within the range between 42.0% to 61.3% over the past three years. In FY15, the company's claim to net premium ratio stood at 42.0%, which was 61.3% in FY14 and 55.9% in FY13. As PICL has to settle down claims against fire insurance the company's claim ratio stood well above peer average over the last three years, which remains a concern.

RATING RATIONALE

Key Rating Drivers:

- **We are assigning a long-term rating of "AA-" and a short-term rating of "ST-2"** to Provati Insurance Company Limited (hereinafter "PICL" or "the company")
- **Decade long expertise and experienced technocrats has helped PICL to build a strong customer base.** Provati Insurance Company Limited (PICL) is one of the reputed insurance companies of the country. The company has been highly focused on its core business, insurance business. The company has captive customer base consisting of different companies. Major businesses of the company comes from Banks and NBFIs, Garments, Textile, Food industry to name a few. Major captive client of the company includes, BD Foods limited, Newzeland Dairy & Foods, A.K.H Group, Rahmat Group, One Group, Abul Khair Group, B.N.S Group, Ranel Group, Kabir Group among others. The company is primarily staffed with professionals with long experience, qualified insurance technocrats and a team of skilled personnel. Apart from that PICL has developed a number of branch network all over the country under direct weekly super vision from Head office to reach the number of customers throughout the country. Meanwhile the number of insured clients of PICL has been increasing gradually subsequently company's gross premium has increased from BDT 332.7 MN in FY14 to 405.1 MN in FY15, representing a YoY growth of 21.8%, which is positive in our view.
 - **PICL has experienced positive growth in gross premium and net premium during FY15.** Gross premium of the company stood at BDT 405.1 MN in FY15 from BDT 332.7 MN in FY14 representing a YoY growth rate of 21.8%. Subsequently net premium of the company stood at BDT 317.2 MN in FY15 from BDT 249.5 MN in FY14 representing a YoY growth rate of 27.11%.
- **During the last three years, PICL has maintained balance sheet with substantial liquid assets and low liabilities.** Insurance companies have various investment restrictions; Hence, most of the premium is generally kept in bank as FDR to support claims.
 - **Cash & Bank Balance / Total Assets:** Historically, PICL has maintained a high cash & bank balance to total assets ratio despite a decreasing trend in recent years. During FY13-FY 15 the ratio stayed within the range between 48.0% - 55.7%.
 - **Liquid Asset / Net Claim:** Historically, PICL has maintained moderate liquid asset to net claim ratio. The ratio reached to 3.1x in FY15 from 2.6x in FY14 which was 2.2x in FY13.
 - **Overall Liquidity:** Historically, PICL has maintained healthy liquidity ratio, which is positive in our view. The ratio reached to 3.4x in FY15 from 3.3x in FY14.
- **PICL has maintained overall moderate profit margins during the last three years.** During FY14 to FY15, PICL's profitability ratios are moderately healthy. Moreover, in our analysis PICL's profitability margins trending improving.

- **Underwriting Profit / Premium:** Historically, PICL has maintained a healthy underwriting profit to net premium ratio. The ratio showed an increasing trend over the past three years. Underwriting profit to net premium ratio increased from 10.3% in FY13 to 16.1% in FY14 which further improved to 17.2% in FY15.
- **Yield from Investment:** Historically, PICL has maintained average performance in investment yield. The ratio stayed within the range between 7.2% to 9.3% over the past three years.
- **Net Profit / Premium:** Historically, PICL has maintained healthy but fluctuating trend in net profit to premium ratio. The ratio reached to 16.1% in FY15 from 17.6% in FY14 which was 12.4% in FY13.
- **Net Profit / Total Income:** Historically, PICL has also maintained healthy but fluctuating trend in net profit to total income ratio. The ratio reached to 13.8% in FY15 from 14.3% in FY14 which was 10.5% in FY13.
- **Historically, PICL has maintained healthy loss reserve to total assets ratio compared to its peer group**, which is positive in our view. During the last three years, the ratio reached to 16.8% in FY15 from 16.2% in FY13. It indicates the financial cushion against the total assets of the company has been high during last three years.
- **ACRSL remains concerned over the near-to-intermediate term about PICL's exposure to the insurance sector.** We have a long-term positive outlook on Bangladesh's Insurance sector, with near-to-intermediate term concerns, based on following analysis:
 - (1) **ACRSL Research has a positive long-term outlook on Bangladesh's Insurance sector**, a view that is driven by rising income levels, steady remittance, rapid urbanization, and expected overall economic growth.
 - (2) **IDRA's complete guideline will be a milestone for the insurance sector of Bangladesh.** IDRA is preparing insurance business guidelines and all the necessary regulations. When these rules and regulations will be implemented, then operation of insurance business will become more efficient and transparent just like banks now. IDRA is planning to provide central software where all the insurance companies (head office and all branches) will be able to use it simultaneously. Therefore, IDRA can monitor all transaction easily and can solve any discrepancy in a fast manner. This will be beneficial for all in long-term.
 - (3) **Increase in stock market exposure during this bear market would be a good strategy for long-term investment.** In this bearish trend, it is easy to buy good companies' share at a cheap price. By now all the insurance companies have absorbed the stock market collapse. Therefore, in future, in good economic condition when economic activity will increase, the stock market is expected to get back into track



and show bullish trend. Then these investments will provide good return in form of capital gain and dividend.

- (4) **The general insurance market is not likely to remain suppressed in the long-term.** This is because general insurance market expansion and increase of insurance penetration in the country lies in tapping the hither to untapped segments of the market – personal lines business that has remained neglected so far.

Special Note: At the time of publication of this credit rating report by ARGUS Credit Rating Services Limited, audited financial statements until FY15 (ending December 31). Projections for FY16 and FY17 were arrived after taking into consideration subsequent events up to the date of reporting, management feedback, and industry insights.

1 CORPORATE PROFILE

1.1 COMPANY DESCRIPTION

History: Provati Insurance Company Limited (PICL) was incorporated as a public limited company in 31st January 1996 upon getting permission from the Government for carrying out non-life insurance business. PICL's major underwriting business includes fire, marine, motor, and miscellaneous insurance business.

Financial Base: At the end of FY15, PICL's Total Assets stood at BDT 784.1 MN, Equity at BDT 429.9 MN, Paid-up Capital at BDT 264.4 MN, Investments at BDT 42.9 MN, Gross Premium at BDT 405.1 MN, Net Premium at BDT 317.2 MN, Underwriting Profit at BDT 54.5 MN and Net Profit Before Tax at BDT 74.5 MN.

Indicators	Comments	Rating Outlook
Quality of Top Management	Senior management of PICL comprises of industry experts and highly qualified personnel with over a decade of experience in the insurance sector. Similarly, professionalism on part of management contributes to brand recognition and operational controls. Moreover, the company's senior management has sound educational, business, social and financial backgrounds and networks. In effect, management proficiency contributes to brand and operating efficiency of PICL that is a positive rating factor.	Positive
Management Adaptation	Senior management brings change at PICL by building group momentum and actively mobilizing others to initiate change. At PICL, management has embedded a culture for change. Such a proactive management contributes to a positive rating outlook.	Positive
Management Structure	PICL's upper management has instituted strict, control mechanisms and a robust infrastructural set up focused on inhibiting negative implications of conflict of interests, as well as fraud, and focused on the smooth flow of operations and the company's long-term operational efficiency. For example, PICL utilizes Software for risk management, finance and accounting purpose. In effect, adherence to control mechanisms has contributed to strong internal controls and is a positive rating factor.	Positive
HR Policy	PICL has a structured HR Policy covering various employment policies, including, selection and recruiting policies, compensation, leave policies, among other factors for employees at all levels of the organization. Moreover, the company's HR policy also clearly delineates the job description and job responsibilities for each of its employees. This contributes to a positive factor.	Positive
Internal Controls	PICL's upper management has instituted strict, control mechanisms and a robust infrastructural set up focused on continuous risk assessment and	Positive

compliance with laws and regulations. PICL's

	internal controls inhibit the negative implications of conflict of interests, as well as fraud at all levels of the organization. Similarly, the internal controls have been implemented to allow for a smooth flow of operations. Furthermore, accounting controls ensure the quality of accounting and financial information, particularly the conditions of under which the information is recorded, stored, and available. In effect, adherence to control mechanisms has contributed to strong internal controls and is a positive rating factor.	
Work Environment	PICL's work environment fosters teamwork and collaboration. A rewarding work environment has also contributed to higher job satisfaction, motivational, and productivity. Overall, this is contributing to a positive rating factor.	Positive

1.2 SHAREHOLDING STRUCTURE

The Board of Provati Insurance Company Limited has twenty members including the Chairman, Alhaj Mohammed Ali. PICL's shareholding structure is given below :

Table 1 Nature of Ownership/Shareholding Percentage

Shareholders	% of Shares
Sponsor Directors and Shareholders	44.08%
Public Directors, Institutions and General Public, Unit Funds and Mutual Funds	55.92%

Share Holding Directors are as follows:

Name	Designation	Share %
Alhaj Mohammed Ali	Chairman	2.3%
Maroof Sattar Ali	Vice Chairman	7.3%
Alhaj Mofizur Rahman	Director	2.0%
Alhaj Mojir Ahmed	Director	3.2%
Mr. Mohammad Ali Talukder	Director	2.0%
Alhaj Sahadat Hossain	Director	2.0%
Mr.Md. Shahjahan Kabir	Director	2.0%
Muhammed Mohoshin Kauser	Director	2.0%
Mr. Abdur Rahman Ansary	Director	2.4%
Mrs. Sabrina Yeasmin	Director	2.4%
Mr. Habib-E-Alam Chy	Independent Director	Nil



Dewan Zakir Hossain	Independent Director	Nil
Md. Mobarak Hossain	Independent Director	Nil
Md. Mahbubur Rahman FCA	Independent Director	Nil
Mr. Prodip Kumar Das	Public Director	7.5%
Mr. Sharafat Hossain Khan	Public Director	0.05%
Mr. Muhammad Nurul Alam Chy	Public Director	0.03%
Mrs. Suraiya Begum	Public Director	0.03%
Md. Badlur Rahman Khan	Public Director	0.08%
Md. Habibur Rahman	Public Director	1.8%
Joarder Nowsher Ali FCA	Sponsor Shareholder	0.33%
Md. Ruhul Amin FCA	Sponsor Shareholder	0.24%
Shakawat Hossain Mamun	Sponsor Shareholder	0.14%
Ali Ashgar	Sponsor Shareholder	1.29%
Shah Md. Tafazzal Hossain	Sponsor Shareholder	0.35%
Md. Shahadat Hossain Ali	Sponsor Shareholder	0.04%
Safayet Hossain Masun	Sponsor Shareholder	0.04%
Mohammed Saiduzzaman	Sponsor Shareholder	0.53%
Mohammed Murtoza Ali	Sponsor Shareholder	0.53%
Moshiur Rahman	Sponsor Shareholder	0.87%
Mrs. Ayesha Akhter	Sponsor Shareholder	0.47%
Md. Saiful Islam	Sponsor Shareholder	0.53%
Md. Salahuddin Sohag	Sponsor Shareholder	0.31%
Md. Ekram Hossain	Sponsor Shareholder	0.02%
Mrs. Hosna Ara Begum	Sponsor Shareholder	0.66%
Md. Mamun Hossain	Sponsor Shareholder	0.33%

Source: PICL's Management

1.3 BOARD OF DIRECTORS

Meetings of the Board of Directors are held regularly. During the year 2015, the Board of Directors held five meetings. The Board approves the annual budget and reviews the business plan of the company in regular basis and offers guidelines for improvement whenever necessary. The management operates within the guidelines, limits, policies as well as the regulatory requirements of timely submission of various financial statements enabling the shareholders to assess the overall performance of the company.

1.4 SENIOR MANAGEMENT

PICL's top-level management team comprises of the following members mentioned below:

Name	Designation
M.A. Salam	CEO
Md. Zahedul Islam	Company Secretary
Shakawat Hossain Mamun	Addl. MD & Head of Internal Audit
Mohammad Nurul Huda (Duke)	Additional MD
MD. Moklesur Rahman Khan	Additional MD
Md. Didarul Alam	DMD
MD. Nazrul Islam Alam	DMD

In addition to the above, Heads of different Departments are well experienced and have dedication for the service to the Business Partners as well as clients. During the crisis moment, they work collectively as a strong team. Besides, four Committees are also working to handle the Company's operation and identify the Management's risk, formulating strategy to reach the objectives.

1.5 OPERATIONS

Provati Insurance Company Limited operates through the Head Office located at Dhaka, Zonal Offices at Chittagong, Khulna and 49 branches throughout the country. The company's business operations are being carried out in the following areas:

- Underwriting fire insurance
- Underwriting marine (cargo & hull insurance)
- Underwriting miscellaneous insurance

1.6 INFORMATION TECHNOLOGY

IT has become indispensable for insurance companies in ensuring smooth operations and providing efficient service. PICL is planning to get Enterprise Resource Planning software (ERP); this will keep the company on the top edge in terms of IT.

Indicators	Presence/Absence
IT Development Team	Absent
Accounting Software	Present
Server and Backup Support	Present
Data Security Policy	Present
Market Research Software	Absent

1.7 HUMAN RESOURCE MANAGEMENT

PICL continues to implement appropriate human resource management policies and practices to develop its employees, and to ensure their optimum contribution towards the achievement of corporate goals.

We found the company is employee friendly and efficient service rule and regulation policy. At the end of FY15, PICL has more than 700 employees. At PICL, Human Resources give the organization a competitive edge in terms of knowledge and experience. PICL continued their policy of recruiting the best people and implementing programs to develop and retain high quality human resources.

1.8 MARKET SHARE

Insurance market in Bangladesh remains extremely competitive due to existence and operation of a large number of companies, incommensurate with the size of the market.

Market Characteristics	Comment
Market Competition	Very high
Bargaining Power of Customers	High
Threat of New Entrants	Low
Marketing Approach	Aggressive

1.9 PRODUCTS AND SERVICES

Currently, PICL offers insurance products under the following broad categories:

- Fire Insurance
- Marine Hull and Cargo Insurance
- Motor Vehicle Insurance
- Miscellaneous Accident Insurance

2 BUSINESS RISK ANALYSIS

2.1 MACRO RISK ANALYSIS

Bangladesh's economy is showing some comfort from 3QFY16 despite undergoing between ups and downs in FY15. The investment climate suffered in FY14-FY15 because of political unrest and consequent disruptions to the supply chain. A slowdown in imports related to industrial output as well as the crop outlook decreased the total output growth of FY16 compared to FY15 to FY13. On the other hand the positive thing is, 3QFY16 growth momentum continued to be driven by large inflows of remittances and a rebound in exports.

Changes in political and macroeconomic factors have an impact on the insurance sector. The deterioration in political situation in near past has affected the overall economic activity as well as general insurance business. On the other hand IDRA's circulars, particularly withdrawing all special premium rates since august 2011 have created strong reaction among the large clients. It has also created significant aversion from such clients to buy new insurance and many of them are reviewing their positions and inclined to go for minimum or limited insurance covers to keep their insurance costs down. As a result, this may negatively affect the growth of general insurance in Bangladesh.

There is a close interaction between insurance and economic growth. As economy grows, the living standards of people increase, therefore, demand for insurance increases. As the assets of people and business enterprises increase in the growth process, the demand for general insurance also increases. In fact, with the widening trend of the economy, the demand for new types of insurance products emerges.

Although the general insurance sector has been experiencing challenges, the future of new market is not likely to remain suppressed in the near future. This is because general insurance market expansion and increase of insurance penetration in the country lies in tapping the hitherto untapped segments of the market – personal lines business that has remained neglected so far. Conducting insurance business in the true spirit of professionalism, bringing in modern management and sales techniques and new product developments are keys to the future growth and progress of the industry.

2.2 INDUSTRY RISK ANALYSIS

2.2.1 Cyclicality

Based on ACRSL's proprietary Market Cyclical Risk Measure (MCRM), the near-to-intermediate term outlook for the Insurance sector is Negative. The MCRM evaluates the share performance of a sector's listed companies as a gauge of fundamental performance of the sector going forward. The measure is developed in line with modern financial theory, which holds that the capital markets are efficient "discounting" mechanisms of future expectations about a company or sector. In other words, listed share prices encapsulate the overall information set available in the economy, including expectations about the future. In an efficient market, all available information about a sector or company is fully captured in the sector index movement or the company's share price movement. While the Bangladesh share market does not fit the criteria of a fully efficient market, nevertheless the price movements of shares or sectors do impart some information about the fundamental health of that sector/share. This is the reason why, among other factors, ACRSL considers the MCRM as a gauge of sector fundamentals going forward. However, the accuracy of such a predictor decreases the longer the time horizon; therefore, the MCRM is used to gauge near-to-intermediate term outlook only. From this perspective, the volatility and return performance of the Insurance Index of DSE has a distinctly Negative bias, as indicated in Table 2 below.

Table 2 Cyclical Risk Measure September 2016.

Industry	3 Yr.		2 Yr.		YTD		Bias
	% Gr	% Vol	% Gr	% Vol	% Gr	% Vol	
Textile	-22.12%	19.95%	-29.94%	18.65%	-7.71%	14.64%	Negative
Pharmaceuticals	113.67%	14.11%	41.06%	11.67%	7.10%	10.53%	Positive
Food and Allied	108.74%	20.58%	21.79%	16.88%	-2.17%	15.39%	Negative
Miscellaneous	90.37%	22.45%	44.73%	20.51%	13.44%	15.80%	Positive
Engineering	50.30%	22.62%	16.37%	22.78%	0.51%	18.51%	Positive
Tannery	70.04%	21.77%	14.71%	16.88%	-5.78%	13.75%	Negative
Ceramic	31.38%	31.31%	20.86%	33.11%	-12.62%	24.13%	Negative
Cement	83.94%	30.20%	-11.97%	28.88%	3.29%	24.75%	Neutral
Fuel and Power	9.45%	17.82%	-3.51%	17.39%	3.80%	13.47%	Positive
IT	34.86%	35.64%	18.64%	33.94%	8.51%	39.11%	Neutral
NBFI	-17.39%	22.28%	-13.36%	22.00%	-5.07%	16.65%	Negative
Insurance	-33.36%	19.83%	-29.95%	18.58%	-14.82%	12.90%	Negative
Bank	10.26%	17.61%	10.48%	15.80%	2.34%	10.88%	Positive
Mutual Funds	-8.20%	17.32%	5.27%	17.24%	14.51%	13.28%	Positive
Telecommunication	39.36%	22.84%	-18.34%	19.83%	8.52%	16.27%	Neutral
Jute	136.36%	39.75%	71.18%	38.88%	36.84%	37.70%	Positive
Services and Real Estate	80.74%	32.22%	31.88%	33.11%	-18.12%	23.33%	Negative
Travel & Leisure	-59.48%	27.91%	-43.87%	28.93%	-18.01%	24.80%	Negative

2.2.2 Regulatory Risk Analysis

As part of regulatory risk analysis, ACRSL considers the following factor:

IDRA's recent circulars, particularly withdrawing all special premium rates since august 2011 have created strong reaction from the large clients. It has also created significant aversion among the large clients. At present large clients are reviewing their insurance position and inclined to go for minimum insurance covers to keep their insurance costs down. As a result, this may negatively affect the growth of general insurance in Bangladesh.

2.3 COMPANY SPECIFIC RISK ANALYSIS

2.3.1 Management Analysis

Effective and efficient management have been the key to PICL's growth and the company's present market position. ARGUS Credit Rating Services Limited (ACRSL) looks at the following factors as part of management analysis in order to determine SIL's business mix, operating efficiency, and overall strengths:

- i. Organizational structure
- ii. Dependence of management team on one or more person
- iii. Coherence of the team
- iv. Independence of the management from the Board of Directors
- v. Good track record of the management to date

2.3.2 Internal Controls and Risk Management

Insurance business involves assumption of risks of many types – physical as well as moral. Physical risks are identified as those caused by natural catastrophes, accidental losses and manmade disasters. The key to proper management of insurance business risks is to endure proper selection of risks as well as of the client through a vetting process known as underwriting. General insurance companies closely follow country's economic development and any slowdown in the economic activities as these has adverse impact on the insurance industry's growth. PICL, being aware of these business risks, practices the following to protect its interests:

- Selection of risks which have the potential of making underwriting profit
- Diversification into many segments of business – product wise as well as client wise.
- The company maintains a conservative reserving policy and its various technical reserves have been created to adequately cater to unforeseen development in the future.

3 FINANCIAL RISK ANALYSIS

3.1 OPERATING PERFORMANCE ANALYSIS

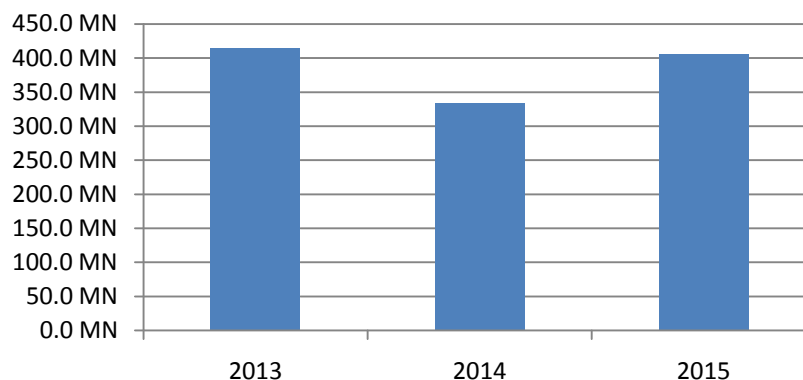
During the last three years, PICL's operating performance showed a fluctuating trend compared to its peers. The company booked positive growth rate in collecting both gross premium and net premium .

Indicators	2013	2014		2015		Observations	Bias
Gross Premium Growth	7.4%	-19.6%	↓	21.8%	↑	Gross premium growth of PICL demonstrated an increasing trend in recent year.	Positive
Net Premium Growth	4.4%	-20.7%	↓	27.1%	↑	Net premium growth of PICL demonstrated an increasing trend in recent year.	Positive
Claims Ratio	55.9%	61.3%	↑	42.0%	↓	Claims ratio of PICL demonstrated a decreasing trend over in recent year.	Neutral
Expense Ratio	38.7%	41.5%	↑	39.3%	↓	Expense ratio of PICL demonstrated a fluctuating trend over the last 3 years.	Neutral
Combined Ratio	94.5%	102.6%	↑	81.2%	↓	Combined ratio of PICL demonstrated a fluctuating trend over the last 3 years.	Positive
Retention Ratio	76.0%	75.00%	↓	78.3%	↑	Recently retention ratio of PICL demonstrated a slight increase.	Neutral

3.1.1 Gross Premium

	FY13	FY14	FY15
Gross Premium (in BDT)	413.9 MN	332.7MN	405.1MN

Gross Premium



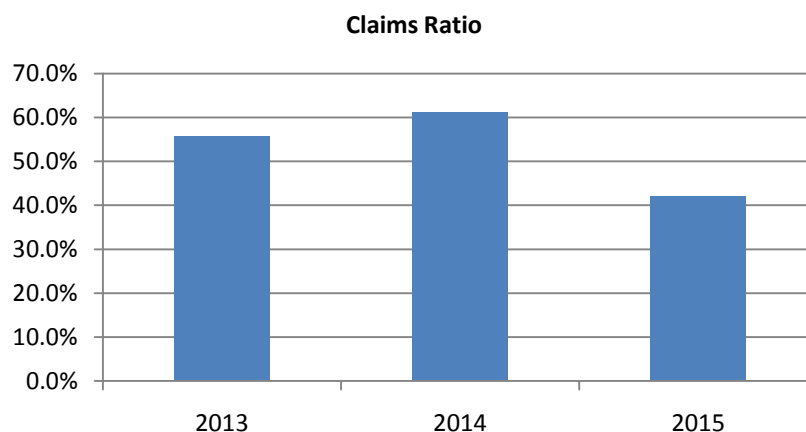
- Historical Trend:** From FY14 to FY15, PICL's gross premium has increased. The gross premium of PICL reached to BDT 405.1 MN in FY15 down from BDT 332.7 MN in FY14, representing a YoY growth of 20.0%.

ACRSL analysis reveals that captive customer baseline has helped PICL to increase gross premium in FY15.

Looking forward: ACRSL has a positive bias on PICL's gross premium trajectory. PICL's management assumes that their marketing team will be able to increase its present market share in going forward.

3.1.2 Claims Ratio

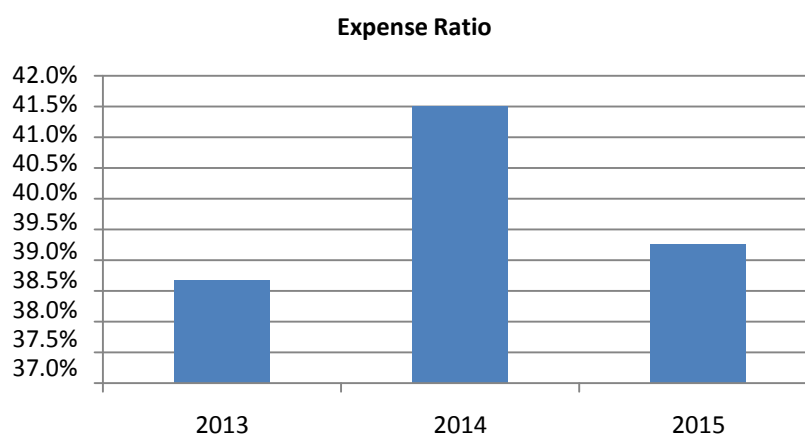
	FY13	FY14	FY15
Claims Ratio	55.9%	61.3%	42.0%



- **Historical Trend:** Historically, PICL has demonstrated a high claims ratio compared to its peers, which is negative in our view. The claims ratio demonstrates an fluctuating trend. The claims ratio of PICL stayed between the range of (42.0% - 61.3%) over the past three years.
- ACRSL analysis reveals that during FY13 and FY14 PICL has settled down several large claims amount in fire insurance, arising from BD Foods limited, Majumder Cold Storage to name a few. Besides all in FY15 PICL's claim ratio slightly decreased. In addition to that, PICL's reinsurance department finds a risky insurance contract it reinsures most of that contract with Sadharan Bima Corporation (SBC). Hence, the company can diversify its underwriting risk and minimize its loss arising from probable claims.
- **Looking forward:** ACRSL has a neutral bias on PICL's claims ratio for FY16. Given the increasing gross premium the company should be able to diversify its underwriting risk based on regular survey and other risk management tools. However, we note that the company's claims ratio is also affected by disaster, accident, and other natural causes, which are notoriously difficult to predict.

3.1.3 Expense Ratio

	FY13	FY14	FY15
Expense Ratio	38.7%	41.5%	39.3%



- **Historical Trend:** Historically, PICL has maintained an expense ratio that is as peer with insurance industry average, which is a positive. Though the expense ratio demonstrates a fluctuating trend. The ratio of PICL reached to 39.3% in FY15 from 41.5% in FY14 which was 38.7% in FY13.
 - Our analysis reveals that most of the management expenses incurred from salaries & allowance, and motor maintenance to name a few. On the other hand most of the unallocated management expense came from depreciation, advertisement and statutory fees.
- **Looking Forward:** ACRSL has a neutral bias on PICL's expense ratio for FY16. Since we anticipate PICL will likely to increase its net premium, it is likely that management expense may increase from these levels going forward.

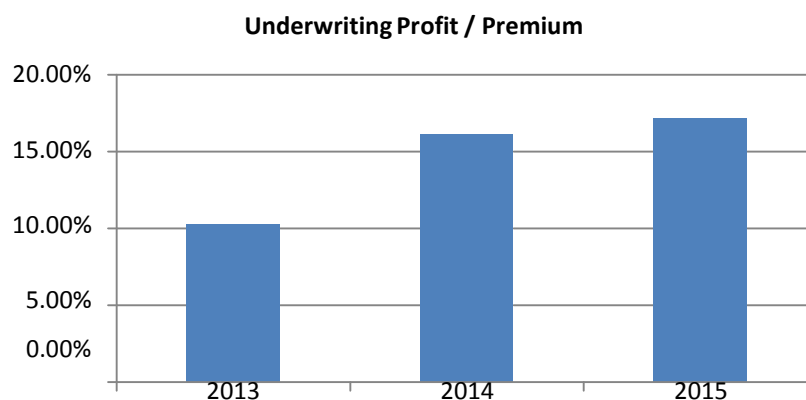
3.2 PROFITABILITY ANALYSIS

During the last three years PICL has maintained a moderate profitability performance. However, during the last three years, PICL's profitability ratios underperformed compared to its peer group. Our analysis reveals that between FY13 and FY15, PICL's profitability ratios performed moderately. Yield from investment demonstrates a decreasing trend in FY15 and net profit % of total income showed a fluctuating trend over the past three years.

Indicators	2013	2014		2015		Observations	Bias
Underwriting Profit / Premium	10.3%	16.1%	↑	17.2%	↑	Underwriting profit to premium of PICL demonstrated an increasing trend over the past three years .	Positive
Investment Yield	9.1%	9.1%	↔	7.2%	↓	Investment Yield of PICL has demonstrated a decreasing trend in recent year.	Neutral
Net Profit / Premium	12.2%	17.4%	↑	16.1%	↓	Net profit to premium of PICL demonstrated a fluctuating trend over the last 3 years.	Neutral
Net Profit / Total Income	10.5%	14.3%	↑	13.8%	↓	Net profit to total income of PICL demonstrated a fluctuating trend over the last 3 years.	Neutral
ROE	11.3%	11.4%	↑	11.9%	↑	ROE of PICL demonstrated a increasing trend over the last 3 years.	Positive
ROA	6.0%	6.3%	↑	6.5%	↑	ROA of PICL demonstrated an increasing trend over the last 3 years.	Positive

3.2.1 Underwriting Profit / Premium

	FY13	FY14	FY15
Underwriting Profit / Premium	10.3%	16.1%	17.2%

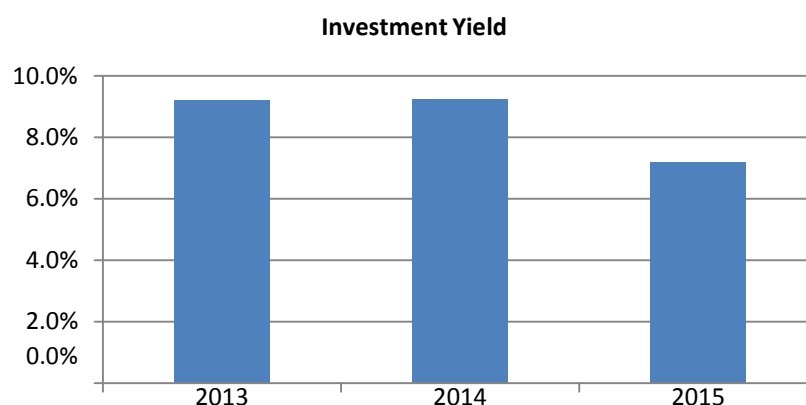


- **Historical Trend:** PICL historically has maintained an increasing trend in profit to net premium ratio. Though the ratio demonstrates an overall increasing trend. The ratio of PICL reached to 17.2% in FY15 from 16.1% in FY14 which was 10.3% in FY13.
 - ACRSL analysis reveals that, during FY13–FY15, the ratio showed an upward trend as the underwriting profit of PICL has also improved during the same period. The underwriting profit reached to BDT 54.5 MN in FY15 from BDT 40.2 MN in FY14 which was BDT 32.3 MN in FY13.

Looking Forward: ACRSL has a neutral bias on PICL’s underwriting profit to premium ratio for FY16. We anticipate PICL will be able to continue its increasing trend of net premium in FY16.

3.2.2 Investment Yield

	FY13	FY14	FY15
Investment Yield	9.1%	9.1%	7.2%

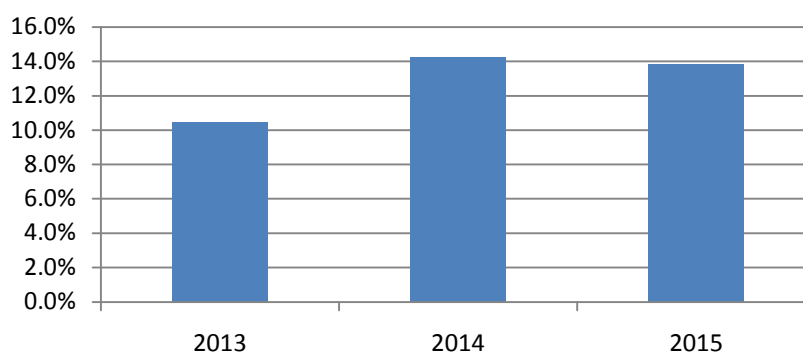


- **Historical Trend:** Historically PICL has maintained a moderate investment yield. Between FY14 to FY15 PICL's yield from investment demonstrates a decreasing trend. The ratio of PICL reached to 7.2% in FY15 from was 9.1% in FY14.
 - ACRSL analysis reveals that due to increase in FDR investment with a sharp decrease in interest rate on FDR has decreased the investment yield ratio in FY15.
- **Looking Forward:** ACRSL has a positive bias on PICL's investment yield for FY16. PICL has already absorbed the shock of stock market collapse; we are expecting that the company will be able to report better income from share market going forward. We anticipate PICL will be able to increase its investment income to some extent in FY16.

3.2.3 Net Profit / Total Income

	FY13	FY14	FY15
Net Profit / Total Income	10.5%	14.3%	13.8%

Net Profit / Total Income



- Historical Trend:** PICL historically has maintained a moderate net profit to total income ratio. During the last three years, the ratio remained close to the peer average but demonstrated fluctuating trend during the same period. The ratio of PICL reached to 13.8% in FY15 from 14.3% in FY14 which was 10.5% in FY13.
 - ACRSL analysis reveals that between FY13-FY15, PICL's total income has been fluctuating. As a result, Net profit to total income ratio has been fluctuating over the years.
- Looking Forward:** ACRSL has a neutral bias on PICL's net profit to total income ratio for FY16. We anticipate PICL will be able to lessen its agency commission and management expense, as the regulatory authority IDRA said no extra commission for insurance going forward; which may increase its net profit after tax in the coming years.

3.3 LIQUIDITY ANALYSIS

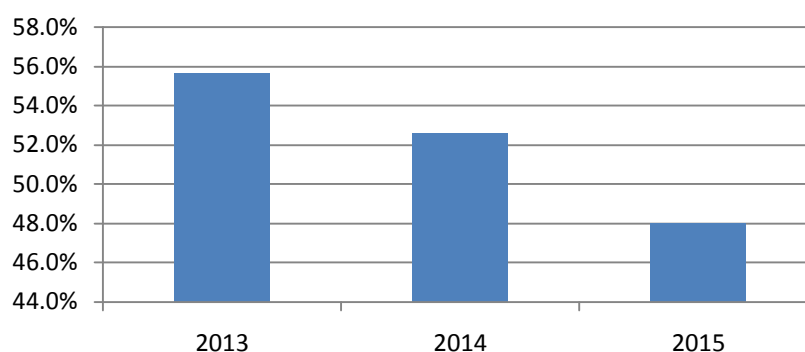
During the last three years, PICL has reported a good liquidity performance. During the last three years, PICL's cash & bank balance and overall liquidity positions remained close its peer group, which is positive. Our analysis reveals that during the last three years, although cash & bank balance to total assets ratio demonstrates a decreasing trend but PICL has been able to report a high cash & bank balance to total assets. This means, the company has the ability to pay claims at a fast manner.

Indicators	2013	2014		2015		Observations	Biased
Cash & Bank Balance / Total Assets	55.7%	52.6%	↓	48.0%	↓	Cash & bank balance to total assets of PICL demonstrated a decreasing trend over the last three years	Neutral
Liquid Asset / Net Claim	2.2x	2.6x	↑	3.15x	↑	Liquid asset to net claim of PICL demonstrated an increasing trend over the last three years	Positive
Overall Liquidity	3.7x	3.3x	↓	3.4x	↑	Overall liquidity of PICL demonstrated fluctuating trend over the last three years	Neutral

3.3.1 Cash & Bank Balance / Total Assets

	FY13	FY14	FY15
Cash & Bank Balance / Total Assets	55.7%	52.6%	48.0%

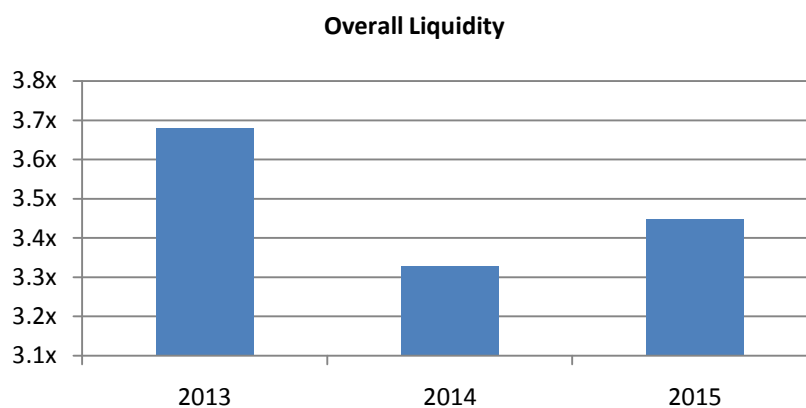
Cash & Bank Balance / Total Assets



- **Historical Trend:** Historically, PICL has maintained a high cash & bank balance to total assets, which is positive. Though During the last three years, the ratio demonstrates a decreasing trend. The ratio of PICL reached to 48.0% in FY15 from 52.6% in FY14 which was 55.7% in FY13.
 - ACRSL analysis reveals that during the last three years PICL kept more than 79% of the cash and bank balance as FDR. Between FY13-FY15, the overall ratio demonstrates a healthy state over the years despite being in decreasing trend.
- **Looking Forward:** ACRSL has a neutral bias on PICL's cash & bank balance to total assets ratio for FY16. Given insurance business's unpredictable claim demand, ACRSL cannot reliably project PICL's cash & bank balance. Since we anticipate present moderate inflation and overall positive economic activity will increase in near future, it is likely that the company will increase its cash & bank balance from these levels going forward.

3.3.2 Overall Liquidity

	FY13	FY14	FY15
Overall Liquidity	3.7x	3.3x	3.4x



- **Historical Trend:** Historically, PICL has maintained a high overall liquidity ratio, which is positive. During the last three years, the ratio demonstrates a fluctuating trend but remained more than 3.0x during these periods. The ratio of PICL reached to 3.4x in FY15 and which was 3.3x in FY14 and 3.7x in FY13.
 - ACRSL analysis reveals that overall liquidity ratio from FY13-FY15 has been healthy as PICL's provision on liabilities has been increasing at a 2-year CAGR of 14.8%. On the other hand the total asset of PICL has been growing at a 2-year CAGR of 10.68.% during the same period.
- **Looking Forward:** ACRSL has a neutral bias on PICL's overall liquidity ratio for FY16. Given insurance business's unpredictable liabilities demand. We are assuming that PICL's net liabilities will be within a stable range in the near future. Hence, we are expecting PICL to report a stable overall liquidity ratio going forward.

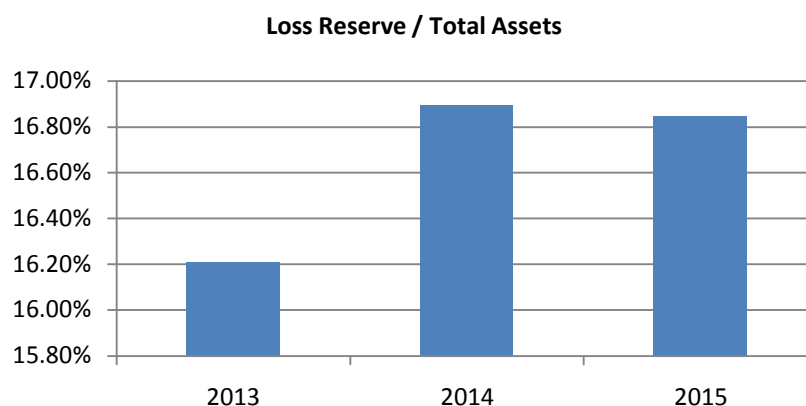
3.4 BALANCE SHEET ANALYSIS

During the last three years, PICL has maintained moderate balance sheet ratios. Over the last three years from FY13-FY15, most of the balance sheet related ratios showed overall underperforming results when compared to peers.

Indicators	2013	2014		2015		Observations	Bias
Net Premium / Total Equity	92.5%	65.5%	↓	73.8%	↑	Net premium to total equity of PICL demonstrated an increasing trend in recent year.	Positive
Net Liabilities / Total Equity	51.2%	54.2%	↑	52.9%	↓	Net liabilities to total equity of PICL demonstrated a fluctuating trend over the last 3 years	Neutral
Loss Reserve / Total Assets	16.2%	16.9%	↑	16.8%	↓	Loss reserve to total assets of PICL demonstrated a fluctuating trend over the last 3 years	Neutral
Balance of Funds / Total Assets	19.7%	14.5%	↓	16.2%	↑	Balance of funds to total assets of PICL demonstrated an increasing trend in recent year.	Neutral
Total Asset Growth	11.9%	7.5%	↓	14.0%	↑	Total asset growth of PICL demonstrated an decreasing trend over the last 3 years	Positive

3.4.1 Loss Reserve / Total Assets

	FY13	FY14	FY15
Loss Reserve / Total Assets	16.2%	16.9%	16.8%

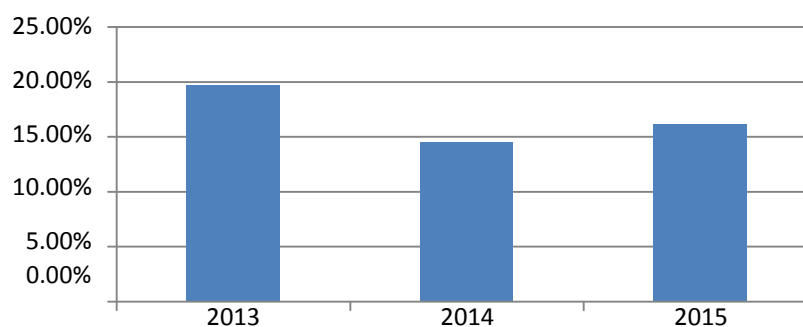


- **Historical Trend:** Historically, PICL has maintained high loss reserve to total assets ratio which is positive in our view. During the last three years, the ratio stayed more or less constant. The ratio of PICL reached to 16.8% in FY15 from 16.9% in FY14 which was 16.2% in FY13.
 - The company's total reserve for exceptional losses reached to BDT 129.58 MN in FY15 from BDT 101.25 MN in FY13, representing a 2-year CAGR of 13.1%. While the total asset of PICL has increased at a 2-year CAGR of 10.68% during the same period.
- **Looking Forward:** ACRSL has a neutral bias on PICL's loss reserve to total assets ratio for FY16. We anticipate PICL will be able to increase its net premium going forward, hence, a portion of net premium will be added to loss reserve to enjoy the related tax rebate. Therefore, we are expecting PICL to report a stable loss reserve to total assets ratio.

3.4.2 Balance of Funds / Total Assets

	FY13	FY14	FY15
Balance of Funds / Total Assets	19.7%	14.5%	16.2%

Balance of Funds / Total Assets



- **Historical Trend:** Historically, PICL has maintained a low balance of funds to total assets ratio compared to its peer group. During the last three years, the ratio demonstrates a fluctuating trend. The ratio of PICL reached to 16.2% in FY15 from 14.5% in FY14 which was 19.7% in FY13.
 - ACRSL analysis reveals that each year PICL transferred 40% of the net premium of each revenue account (fire, motor, and miscellaneous) and 100% of the balance of funds account. Therefore, movement in balance of funds account, whether positive or negative, is in line with movement in net premium. During FY13 to FY15, balance of funds reached to BDT 126.88 MN in FY15 from BDT 99.97 MN in FY14 representing a YOY growth of 26.91%.

- **Looking Forward:** ACRSL has a positive bias on PICL's balance of funds to total assets for FY16. However We are assuming that PICL will be able to report somewhat positive growth in net premium, thus, balance of funds may increase.

4 CORPORATE GOVERNANCE

Board Practice	Presence/Absence
Existence of Board Charter	Present
Existence of Committees for audit and remuneration	Present
Separate CEO and Chairperson	Present
Procedures to review/address external audit findings	Present

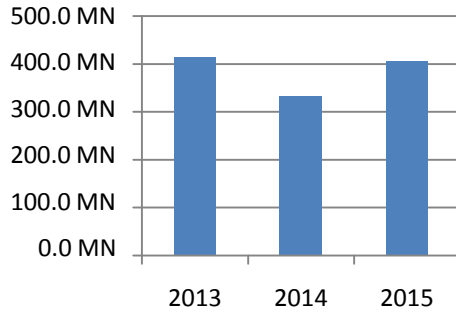
Code of Ethics/Conduct	Presence/Absence
Commitment to legal and regulatory compliance	Present
Policies to prohibit facilitation payments and bribes	Present
Guidelines on giving and receiving gifts	Absent
Training and/or communication on code of ethics	Present

Business Value and Risk Management	Presence/Absence
Demonstrated commitment to work towards long term sustainability	Present
Demonstrated commitment to address social, ethical and environment	Absent
Procedures to identify potential risks and opportunities	Present
Risk Management and Internal Control Systems	Present
Presence of Research and Development Team	Absent

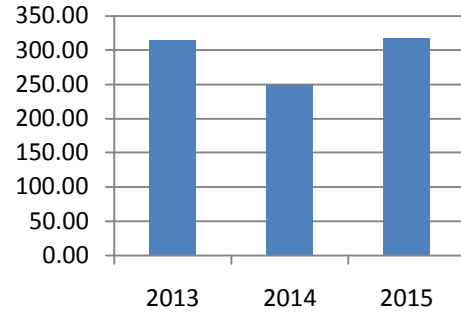
5 CHARTS

5.1 OPERATING PERFORMANCE ANALYSIS

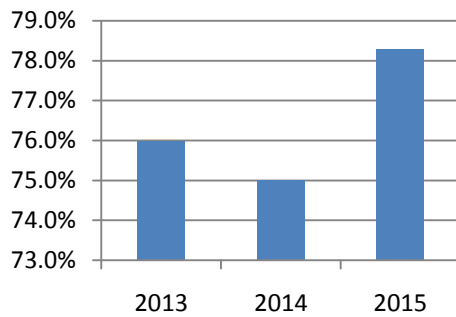
Gross Premium



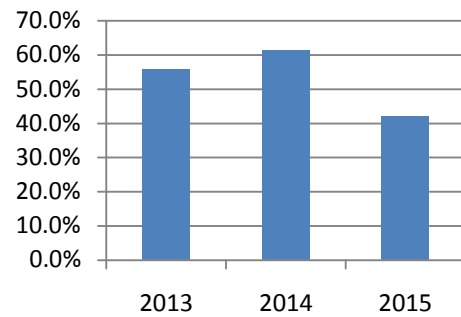
Net Premium



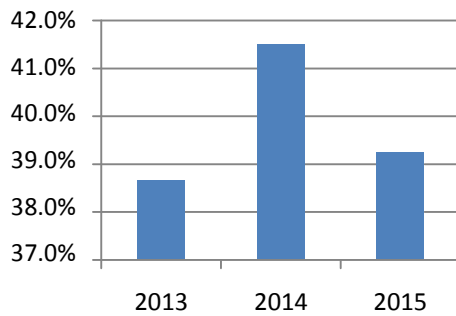
Retention Ratio



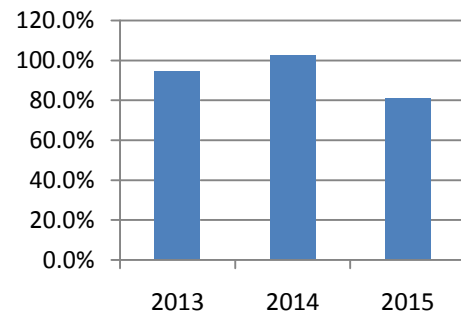
Claims Ratio



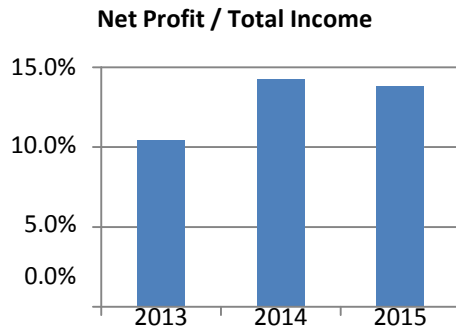
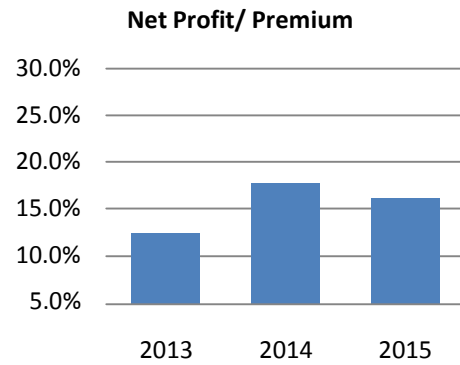
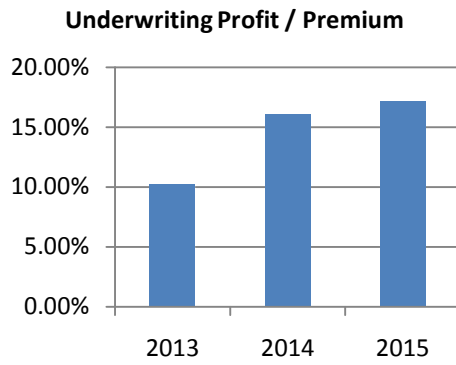
Expense Ratio



Combined Ratio



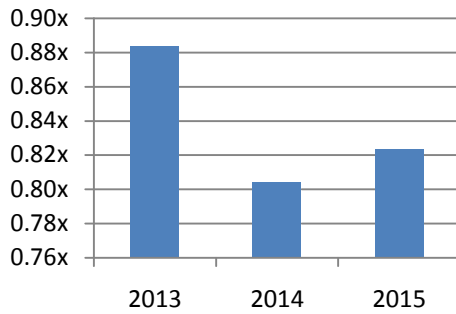
5.2 PROFITABILITY ANALYSIS



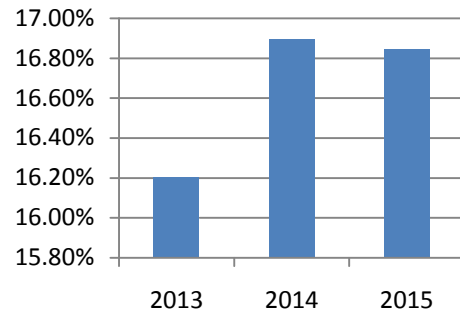


5.3 BALANCE SHEET ANALYSIS

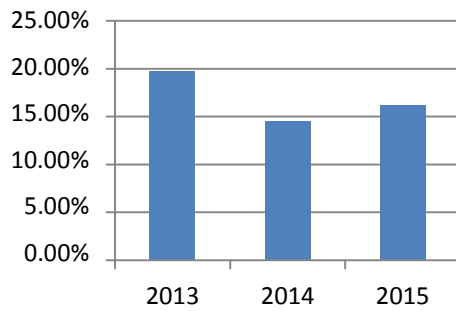
Total Liabilities to Total Equity



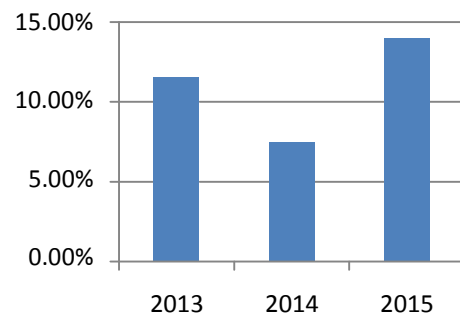
Loss Reserve / Total Assets



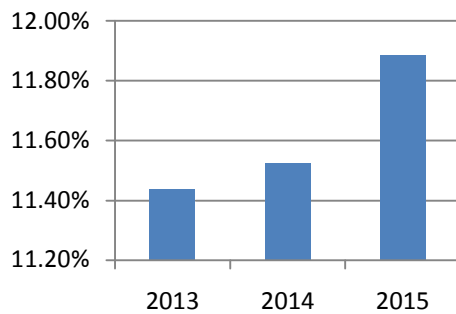
Balance of Funds / Total Assets



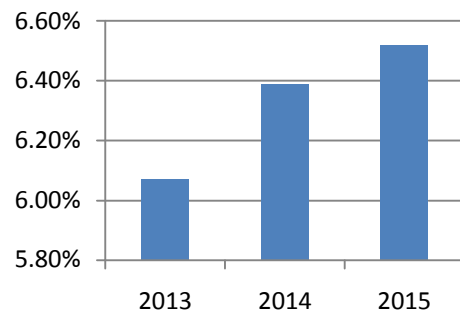
Total Asset Growth



ROE

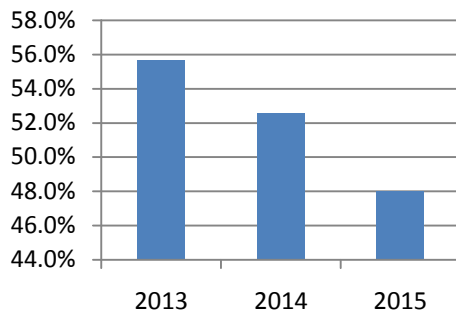


ROA

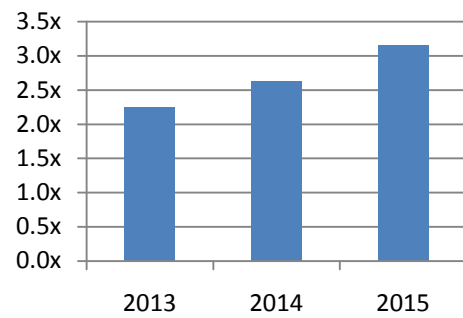


5.4 LIQUIDITY ANALYSIS

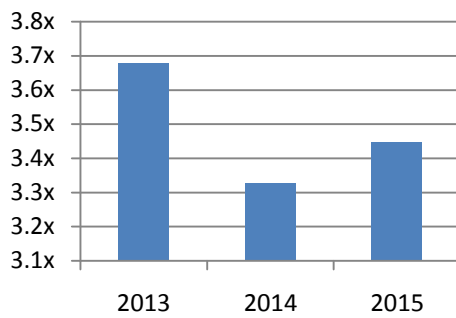
Cash & Bank Balance / Total Assets



Liquid Asset / Net Claim



Overall Liquidity



Appendix A: Summary of Financial Metrics

*in BDT MN

Balance Sheet Metrics	2013	2014	2015
Paid-Up Capital	210.74	236.03	264.35
Total Reserve	103.75	116.22	132.08
Total Equity	339.83	381.23	429.89
Balance of Funds	126.28	99.97	126.88
Liabilities & Provisions	157.46	189.63	207.51
Investments	38.64	40.36	42.88
Cash & Bank Balance	356.33	361.81	376.39
Fixed Assets (At Cost less Depr.)	37.63	116.77	120.55
Total Assets	640.12	687.88	784.09

Income Statement Metrics	2013	2014	2015
Interest Income	36.70	35.25	30.35
Investment Income	-1.22	1.41	-0.70
Net Premium	314.48	249.52	317.15
Net Claims	175.70	153.08	146.81
Commission	62.08	49.90	60.76
Management Expenses	59.52	53.65	63.75
Underwriting Profit	32.28	40.18	54.53
Net Profit Before Tax	55.11	66.29	74.47
Net Profit After Tax	38.48	43.39	51.10

Consolidated Rev. Account Metrics	2013	2014	2015
Gross Premium	413.90	332.70	405.07
Re-insurance Premium	99.42	83.18	87.91
Net Premium	314.48	249.52	317.15
Commission on Re-insurance	20.73	20.99	21.96
Agency Commission	62.08	49.90	60.76
Last year's Unexpired Risk	120.66	126.28	99.97
Net Claims	160.73	168.77	133.16
Management Expenses	59.52	53.65	63.75
Reserve for Unexpired Risk	126.28	99.97	126.88
Underwriting Profit	32.28	40.18	54.53

Source: PICL Annual Reports FY13 to FY15

Appendix B: Summary of Analytics

Indicators	2013	2014	2015
Total Income Growth	5.54%	-17.26%	20.20%
Gross Premium Growth	7.42%	-19.62%	21.75%
Net Premium Growth	4.45%	-20.66%	-27.11%
Retention Ratio	75.98%	75.00%	78.30%
Claims Ratio	55.87%	61.35%	41.99%
Expense Ratio	38.67%	41.50%	41.50%
Combined Ratio	94.54%	102.85%	81.25%
Underwriting Profit / Premium	10.27%	16.10%	17.19%
Investment Yield	9.12%	9.12%	7.19%
Net Profit / Premium	12.24%	17.39%	16.11%
Net Profit / Total Income	10.37%	14.12%	13.84%
Net Profit Growth	-3.98%	12.74%	16.33%
Cash & Bank Balance / Total Assets	55.67%	52.60%	48.00%
Liquid Asset / Net Claim	2.25x	2.63x	3.15x
Overall Liquidity	3.68x	3.33x	3.45x
Net Premium / Total Equity	92.54%	65.45%	73.78%
Net Liabilities / Total Equity	51.20%	54.21%	52.88%
Total Liabilities / Total Equity	88.36%	80.44%	82.39%
Loss Reserve / Total Assets	16.21%	16.90%	16.85%
Balance of Funds / Total Assets	19.73%	14.53%	16.85%
Investments in Share / Total Assets	4.01%	4.03%	4.16%
Total Asset Growth	11.53%	7.46%	13.99%
ROA	6.07%	6.39%	6.52%
ROE	11.44%	11.52%	11.89%

Source: ACRSL Research

APPENDIX C: LONG TERM RATING DETAILS

ACRSL INSURANCE RATINGS (LONG TERM)

Rating	Definition
AAA Triple A (Highest Safety)	Highest claims paying ability. Risk factors are negligible and almost risk free.
AA+, AA, AA- Double A (Very High Safety)	Very high claims paying ability. Protection factors are strong. Risk is modest, but may vary slightly over time due to underwriting and/or economic condition.
A+, A, A- Single A (High Safety)	High claims paying ability. Protection factors are good and there is an expectation of variability in risk over time due to economic and/or underwriting conditions.
BBB+, BBB, BBB- Triple B (Adequate Safety)	Good claims paying ability. Protection factors are good. Changes in underwriting and/or economic conditions are likely to have impact on capacity to meet policyholder obligations than insurers in higher rated categories.
BB+, BB, BB- Double B (Moderate Safety)	Average claim paying ability. Protection factors are average. The companies are deemed likely to meet these obligations when due. But changes in underwriting and/or economic conditions are more likely to weaken the capacity to meet policyholder obligations than insurers in higher rated categories.
B+, B, B- Single B (Inadequate Safety)	Inadequate Claim paying ability. Protection factors are weak. Changes in underwriting and/or economic conditions are very likely to further weaken the capacity to meet policyholder obligations than insurers in higher rated categories.
CCC+, CCC, CCC- Triple C (Risky)	Uncertain claims paying ability. The companies may not meet these obligations when due. Protection factors are very weak and vary widely with changes in economic and/or underwriting conditions.
CC+, CC, CC- Double C (Vulnerable)	Poor claims paying ability. Adverse underwriting or economic conditions would lead to lack of ability on part of insurer to meet policyholder obligations.
C+, C, C- Single C (Near to Default)	Very high risk that policyholders obligations will not be paid when due. Present factors cause claim paying ability to be vulnerable to default or very likely to be default. Timely payment of policyholder obligations possible only if favorable economic and underwriting conditions emerge.
D Single D (Default)	Insurance companies rated in this category are adjudged to be currently in default or likely to be in default soon.

APPENDIX D: SHORT TERM RATING DETAILS

ACRSL INSURANCE RATINGS (SHORT TERM)

ST-1	Very high claims paying ability. Protection factors are strong. Risk is modest, but may vary slightly over time due to underwriting and/or economic condition.
ST-2	High claims paying ability. Protection factors are good and there is an expectation of variability in risk over time due to economic and/or underwriting conditions.
ST-3	Good claims paying ability. Protection factors are good. Changes in underwriting and/or economic conditions are likely to have impact on capacity to meet policyholder obligations than insurers in higher rated categories.
ST-4	Average claim paying ability. Protection factors are average. The companies are deemed likely to meet these obligations when due. But changes in underwriting and/or economic conditions are more likely to weaken the capacity to meet policyholder obligations than insurers in higher rated categories.
ST-5	Inadequate Claim paying ability. Protection factors are weak. Changes in underwriting and/or economic conditions are very likely to further weaken the capacity to meet policyholder obligations than insurers in higher rated categories
ST-6	Insurance companies rated in this category are adjudged to be currently in default.

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RESEARCH

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