EMERGING
Credit Rating Ltd

Provati Insurance Company Limited

Credit Rating Report

Date of Declaration	Valid Till	Rating Action	Long Term Rating	Short Term Rating	Outlook
July 31, 2011	July 30, 2012	Initial	A-	ECRL-3	Stable
September 27, 2012	September 26, 2013	Surveillance-1	A	ECRL-2	Stable
September 27, 2013	September 26, 2014	Surveillance-2	A+	ECRL-2	Stable

Date of Incorporation : January 31, 1996

Board Chairman : Mr. Al-Haj Mojir Ahmed

Managing Director : Mr. Md. Ataur Rahman Mazumder

Non-current Assets : BDT 40.33 million (As on December 31, 2012)

Current Assets : BDT 509.59 million (As on December 31, 2012)

Shareholder's Equity : BDT 573.93 million (As on December 31, 2012)

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Credit Analysis

Rating

2013 Surveillance Report

Provati Insurance Company Ltd.

Major Rating Factors

Strengths

- Significant premium earning sector-marine cargo.
- Significant increase of operating cash flow generated by business.
- Improved combined ratio with high risk retention ratio.

Challenge / Risks

- Concentration on and high risk retention in Motor and Fire Insurance segment.
- Claim management performance deteriorated.
- Lack of research & development (R & D) process.

Rationale

Emerging Credit Rating Limited (ECRL) has upgraded to **A+** (Pronounced as A plus) as long term credit rating and **ECRL-2** as short term credit rating to the Provati Insurance Company Limited (later referred to as PICL). The outlook on the rating is **Stable.** The ratings are consistent with ECRL's methodology for this type of company. The ratings are based on audited financial statements from FY2010-FY2012, six months audited staements of FY2013, site visit, bank information and other qualitative information up to the date of rating. The assigned ratings reflect the strength of the company fundamentals which is underpinned by the good & consistent underwriting profitability, comfortable liquid asset, good reserve maintenance and experienced management team. Significant growth of net premium & operating cash flow, higher risk retention, improving combined ratio & tighter control over the management expense has stimulated improved performance of the company. In FY2012 the significant premium earning sector is marine-cargo among the five business sectors with 2.5 times increase of net premium earnings.

With strick monitoring on the industry the IDRA succeeded to eradicate the unfair competition as well as the agency commission and other related anomalies. The commission on marine sector increased by 5% that causes to wipe out may participants rather than taking high risky marine business with higher price for agents. So the company got new businesses in marine sector & sell more policy along with other sectors in FY2012. Moreover, high risk retention with lower combined ratio reflects good underwriting performance. On the other hand the company could be able to maintain a fair level of management expense which was only 0.61% excess in FY2012, that enable to reduce the combined ratio & represent them as good performer.

The combined ratio of the company has been improving since FY2010 and in FY2012 bringing it down to 80.82% from 89.14% of FY2011, that added an encouraging improvement of core underwriting performance of PICL which contributed to higher profitability in the sub-sequent years. Continuious improvement resulted mainly from the tighter control over the management spending along with the reduction in claim paid out as a percentage of net-premium. The sustainability of this improved underwriting performance underpins a belief that the performance of the company would be in good stage of growth due to the effects of macro-economic & industry specific factors. Though the claim settlement performance has been quite satisfactory and stable, it was deteriorated in FY2012. And, the company has settled around 58% of the total claims while holding total outstanding claim of BDT 66.52 million which 42% of total claim taking under consideration at the end of the year.

The underwriting profit decreased slightly with increase of management expense, agency commission & reserve for unexpired risk. On the other hand the net premium increased by 54.71% in FY2012 compared to the increase of the profit, that caused the net profit to fall by 20.61%. In FY2012 the net profit margin slashed to 19.30% for that reason. The ROA slashed to 7.07% and ROE increased to 13.46% in FY2012 even though following the increasing trend of profit before tax and reserve.

In the years under consideration, PICL maintained the reserve for un-expired risk as required; The company has also been maintaining reserve for exceptional losses aimed at absorbing some probable unexpected losses. The company was even able to absorb 12% of the net claims in FY2012 from this reserve for exceptional losses; though this decrease in the above ratio indicates an reduced security for the policyholders but was due to the increase of net calim. In 2012 the risk retention ratio was 78.15%, a 28.15% higher than our expected 50%. Although this high risk retention is meant to increase profitability, it on the other-hand signals inadequate reinsurance protection.

PICL's stable outlook is reflected by its good financial flexibility and liquidity position as evidenced by improved current ratio and excess investment & comfortable liquid assets with significant increase of operating cash flow generated from the business. PICL paid almost 57.44% of its total claim with the cash generated from its operating activities.

Employee turnover rate is quite low, corporate reporting also complied with the regulatory reporting requirements, management & other team has been serving the company for more than ten years & has considerable experience in the insurance sector. IT infrastructure needs further development, as no software based database system is maintained for the clients' records. The company has been perused a software for calculation of premium for different policies in FY2011. It's a automated system that generates premium per year for different policies for some given values i.e. sum insured, value of property, economic life, risk criteria (inclusion or exclusion of different items). Moreover, the company has been using 'CDBL' & 'setcombd' software for trading their securities in the market & generating information, reports out of the trading related data. In FY2012 the company installed close circuit (CC) camera covering the activities of whole office.

Exhibit 1: Financial Highlights: Provati Insurance Company Limited

FYE 31 December	2013*	2012	2011	2010
Gross premium (BDT in millions)	239.53	385.27	269.10	256.21
Annual change (%)	-	43.00	5.03	26.00
Net premium (BDT in millions)	186.38	301.07	194.61	180.79
Annual Change (%)	-	55.00	66.30	18.00
Underwriting profit (BDT in millions)	24.88	40.47	40.54	24.04
Profit Before, Interest, Reserve &Tax (BDT)	34.99	58.11	47.31	40.30
Net Profit After Tax (BDT in millions)	24.08	22.52	17.89	15.84
Net Profit (%)	18.77	19.30	24.31	34.43
Investment yield (%)	-	9.80	7.38	11.00
Combined Ratio (%)	89.22	80.82	89.14	92.00
ROA (%)	5.62	10.12	7.22	6.00
ROE (%)	7.40	13.30	12.34	11.00
Risk Retention Ratio (%)	77.81	97.29	72.00	71.00
Current Ratio (Times)	1.83	3.36	3.52	2.99
Solvency Margin Ratio (times)	-	0.20	0.23	0.26
Management expenses as % of allowable	-	100.61	99.95	102.05
Reserve for unexpired risk (BDT in millions)	94.84	85.52	77.91	72.42

FY2010-FY2012 data extracted from audit report

**FY2013 data extracted from half yearly audited report*