ARGUS CREDIT RATING SERVICES LTD.

Credit Rating Report

Provati Insurance Company Limited

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CONTACT INFORMATION

For Additional Information Please Contact:

ARGUS Credit Rating Services Limited
Level-13, BDBL Bhaban
8 Rajuk Avenue
Dhaka 1000
Bangladesh
Email: info@acrslbd.com

Ref No	**ACRSL157246/18**
Company Name	Provati Insurance Company Limited
Assigned Ticker	PROVATIINS
Activity	Non-Life Insurance Business
Incorporated On	31 January 1996
Head Office	Khan Mansion (11th Floor), 107 Motijheel Commercial Area, Dhaka-1000, Bangladesh.

Rating Type	Corporate/Entity
Rating Validity	16 Sep 2019
Analyst(s)	ACRSL Analyst Team
Committee(s)	ACRSL Rating Committees

RATINGS SUMMARY

CREDIT RATING	CURRENT	PREVIOUS
Long-Term	AA	AA-
Short-Term	ST-2	ST-2
Publishing Date	16 Sep 2018	17 Sep 2017

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 Q2FY18 [ending June 30] audited/management certified balance sheet and that management has disclosed all material & adverse to financials since Q2FY18.

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. Gross premium of the company increased from BDT 405.07 MN in FY15 to BDT 443.30 MN in FY16, representing a YoY growth rate of 9.44%. Subsequently in FY17 the Gross premium of the company stood at BDT 482.60,representing a YoY growth rate of 8.87%, which is positive rating factor in our view.
  - **Historically, Provati Insurance Company Limited (PICL) has maintained healthy loss reserve to total assets ratio,** which is a positive rating factor. During the last three years, the ratio reached to 16.70% in FY17 from 15.82% in FY16 which was 16.85% in FY15. Though the ratio in fluctuating but the financial cushion against the total assets of the company has been high during last three years.
- **Provati Insurance Company Limited (PICL)'s balance sheet profile remained strong with substantial liquid assets providing cushion against claim**. Provati Insurance Company Limited (PICL) has maintained more healthy total assets as cash and bank balance over the last three years. This means PCIL's assets are highly liquid and can be used in case of large claims payment. Historically, PCIL has maintained a high cash & bank balance to total assets ratio, which is a positive rating factor.

Concerns:

- **Provati Insurance Company Limited (PICL)'s substantial insurance claims over the years, remains as a concern.** The company's claim to net premium ratio stayed within the range between 41.99% to 50.74% over the last three years. In FY17, the company's claim to net premium ratio stood at 50.74%, which was 46.99% in FY16 and 41.99% in FY15, which remains a concern.
- **Provati Insurance Company Limited (PICL)'s leverage in terms of Net Liability to Equity remain high over the years.** Over the last three years PICL's Net Liability to Equity ratio demonstrated a fluctuating trend and overall in increasing trend .The ratio increased from 52.88% in FY16 to 73.19% in FY16, subsequently in FY17 the ratio reached to 72.58%. Net-net, during the last three years the ratio increased 19.70 percentage points.

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 Provati Insurance Company Limited (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.

  - **Gross premium** of the company increased from BDT 405.07 MN in FY15 to BDT 443.30 MN in FY16, representing a YoY growth rate of 9.44%. Subsequently in FY17 the Gross premium of the company stood at BDT 482.60,representing a YoY growth rate of 8.87%, which is positive rating factor in our view.

- **Historically, Provati Insurance Company Limited (PICL) has maintained healthy loss reserve to total assets ratio,** which is a positive rating factor. During the last three years, the ratio reached to 16.70% in FY17 from 15.82% in FY16 which was 16.85% in FY15. Though the ratio in fluctuating but the financial cushion against the total assets of the company has been high during last three years.

- **Provati Insurance Company Limited (PICL)'s balance sheet profile remained strong with substantial liquid assets providing cushion against claim**. Provati Insurance Company Limited (PICL) has maintained more healthy total assets as cash and bank balance over the last three years. This means PCIL's assets are highly liquid and can be used in case of large claims payment. Historically, PCIL has maintained a high cash & bank balance to total assets ratio, which is a positive rating factor.

  - **Cash & Bank Balance / Total Assets:** Historically, Provati Insurance Company Limited (PICL) has maintained a high cash & bank balance to total assets ratio during the last three years, which is a positive rating factor. The ratio was 48.00% in FY15, which decreased 39.60% in FY16 and remained 38.74% in FY17.

- **Liquid Asset / Net Claim:** Historically, Provati Insurance Company Limited (PICL) has maintained sufficient liquid asset to net claim ratio which is positive in our view. Though the ratio has been decreasing during last three years, but still in comfortable position. The ratio was 3.15x in FY15, which decreased to 2.46x in FY16 and remained 2.20x in FY17.
- **Overall Liquidity:** Historically, Provati Insurance Company Limited (PICL) has maintained a high overall liquidity ratio, which is positive in our view. The ratio stood at 3.45x in FY15 which decreased to 2.79x in FY16 and remained 2.81x in FY17. Though the ratio has been following a decreasing trend, the ratio remained good.
- **Balance of Funds / Total Assets:** Historically, Provati Insurance Company Limited (PICL)'s Balance of funds to total assets ratio demonstrated a fluctuating but remain comfortable, which is a positive rating factor. The ratio decreased from 16.18% in FY15 to 15.14% in FY16 and further increased to 15.33% in FY17.
- **Total Asset base:** Historically, Provati Insurance Company Limited (PICL) has maintained a strong total asset base, which is positive in our view. The company's total asset increased from BDT 784.09 MN in FY15 to BDT 948.46 MN in FY16, representing 20.96% y/y growth. Subsequently in FY17 total asset increased to BDT 1,019.71 MN representing 7.51% y/y growth.

- **Provati Insurance Company Limited (PICL)'s substantial insurance claims over the years, remains as a concern.** The company's claim to net premium ratio stayed within the range between 41.99% to 50.74% over the last three years. In FY17, the company's claim to net premium ratio stood at 50.74%, which was 46.99% in FY16 and 41.99% in FY15, which remains a concern.
- **Provati Insurance Company Limited (PICL)'s leverage in terms of Net Liability to Equity remain high over the years.** Over the last three years PICL's Net Liability to Equity ratio demonstrated a fluctuating trend and overall in increasing trend .The ratio increased from 52.88% in FY16 to 73.19% in FY16, subsequently in FY17 the ratio reached to 72.58%. Net-net, during the last three years the ratio increased 19.70 percentage points.
    - **Total Liability:** PICL's total liability increased from BDT 354.19 MN in FY15 to BDT 483.71 MN in FY16, representing 36.57% YoY growth. Subsequently in FY17 it increased to BDT 519.44 MN, representing 7.39% YoY growth.
    - **Total Liability:** PICL's total equity increased from BDT 429.89 MN in FY15 to BDT 464.75 MN in FY16, representing 8.11% YoY growth. Subsequently in FY17 it increased to BDT 500.27 MN, representing 7.64% YoY growth.

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.

- **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.

- **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.

- **The GDP of our country is increasing than the previous years which results in increase of per capital income.** So this growing GDP and income holds bright prospects for insurance companies. The major problem is the incapability of our people to pay the premium charged by the insurance companies. With the growth in the income more and more people are now willing to take an insurance policy for safeguarding themselves from any danger.

- **There is a big opportunity lies ahead for the insurance companies as the population of our country are increasing day by day**. Although most of people of our country live under extreme poverty level and want to avoid insurance policy number of potential policy holders in Bangladesh is growing with growth of the population. There is somewhat relationship between growing populations with the number of public vehicle. As we know all public vehicle must have an insurance policy. So growing population also increase the motor insurance too. That is growth in population opens greater scope for every kind of insurance business that results in growing prospect for insurance companies.

- **People are now much more conscious about their safety.** So they are encouraged to take an insurance policy for making their life free from any unexpected occurrence. Increase in literacy rate is helping predominantly to create awareness among the people regarding taking insurance policy. Besides this insurance companies are also trying to eradicate the negative attitude of people towards the insurance company by organizing various programs such as seminars, programs including social responsibilities etc.

- **Micro insurance can be a great prospective area for the insurance business in our country**. Most of the people of our country are unable to have costly and long term insurance policies. Micro insurance can be provided to individual personnel or to small business owners against little insurance premiums and with easy terms and conditions. When they will afford to minimize their risks at a lower price, they will take that opportunity and they will become to get used to it. This can cover a huge portion of the society who can be a prospective target market for this business.

- **Insurance companies can usually make more profit from investment activities than from their regular insurance business.** The private insurance companies are realizing this fact and playing role in the financial market. Insurance companies are making large investment in government bonds, ICB projects and in private sector business. There are opportunities to enhance profit through effective and efficient money management by employing capable and experienced personnel. Scope of investment expansion persists in the areas leasing, housing, health and money market.

- **Insurance is not just a tool of risk coverage.** It is also an attractive instrument of savings. The mixture of risk coverage with savings gives the opportunity for innovative product designing which means service diversification. In a dynamic insurance market one can expect to see new products being promoted at regular intervals. So far very little efforts have been taken to innovative and introduce need oriented insurance services in response to existing threats. The prospect of the insurance business in various sectors that affect our economy can be differentiated in the following way.

- **The economy of Bangladesh is predominantly an agrarian one, with most people engage in farming and fishing**. The uncertainty of agriculture due to crop failure caused by climate variation, drought, cyclone, flood and pests affects farmer income as well as government revenue. Furthermore, in the last few years commercialization has occurred in some sections of the agricultural sector. Increase in investment in the agricultural sector is creating a new opportunity for insurance industry. Various agricultural insurance services are becoming common these days. Demand for insurance protection against crop loans, livestock loans, fisheries loans and equipment loans are also increasing day by day.

- **Nowadays in Bangladesh the SME plays a important role in the economic development**. But they are deprived from taking loans from bank for large amount. If insurance business focuses this section in Bangladesh they are able to contribute more in the economy. Thus insurance business has a bright prospect in business sector in a developing country like Bangladesh.

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:

- **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.

- **A vast majority of people especially in rural areas are left outside the insurance coverage.** This mainly results from the unawareness among the people. Even a large portion of people don't have the minimum idea of insurance. People are not aware of the benefits from the insurance policy and a great number of people believe that insurance business is nothing but cheating and assume that insurance policy is quite unnecessary. This negative attitude from the people is lessening the importance of absorbing insurance policy in a large extent.

- **Most of the insurance companies in our country are located in urban areas and there are few branches in rural areas.** They think that they might have better scope for performing their business as the economic condition of the urban is better than the rural areas. They don't think that the large number of our population reside in rural areas and if branches are expanded in rural areas then the business can thrive if proper motivation policy is taken to aware the mass people of the rural areas. Thus this centralization policy acts as an obstruction for the growth of insurance business in our country.

- **Bangladesh is one of the poorest countries in the world and most of the people in this country live under extreme poverty level**. All of these people fight hard to earn their livelihood and are marginal in relation to the expenditure with the income. It is quite impossible for them to save some money for future need. Therefore they are quite unable to give the amount to the insurer which is called as premium and regarded as safety or precautionary measures against any accident. The number of people who can bear the premium to the insurance company is very few in regard to those mentioned above. Therefore the overall poor economic condition is creating obstacle to flourish the insurance business in Bangladesh.

- **Most of the insurance companies of our country are facing financial problems.** Recently government is trying to take initiative to close some of the insurance companies because they are not maintaining the minimum standards. They are investing their money in poor securities and business which is vulnerable regarding getting back the money with profit. As a result most of the insurance companies are suffering from loss years after years and for poor financial condition the insurance companies are also unable to expand their branch which is a barrier for the growth of insurance business in Bangladesh.

- **Growing cost of business is another problem that insurance companies are facing now a day**. They urge that government tax, house rent, utility, commission fee, stationeries are growing day by day. But their businesses are not growing so fast with that rate. Besides this the policy holders are not willing to pay too much premium with growing cost that is hampering the strategies of insurance companies. So they are facing difficulties in running their business efficiently.

- **Lack of surveillance from government ministry encourages many insurance companies** to follow some unethical practices like make harassment to policy holder and showing less in the financial statement. This not only destroying the reputation of the well known insurance companies but also creates negative impact in the mind of the people about insurance. Besides this government sometimes impose some conflicting rules and regulation without discussing with insurance companies governing body. It creates conflict among insurance companies with government and act as one of the main hindrances of growing insurance business.

- **Insurance companies perform their activities by recruiting marketing agent and they try to convince** the people to take a policy. Most of the cases the agents are not properly trained and they don't know the right process to catch potential people to make their policy holders. Therefore these field level agents are unable to fulfill their target and act as a constraint in the insurance business.

- **Spread of insurance business in Bangladesh failed for lack of proper training** by the employees specially the field employees of insurance companies. Still there are not enough training center to provide proper training regarding insurance activities for the officials of insurance company. Though there is one insurance training center in Bangladesh it totally failed to achieve its target in insurance field.

- **Another main problem in the country is that the media is unconcerned to send the right message regarding insurance to the people.** As a result a large portion of population is completely unaware about the insurance policy. Another problem is that the insurance company does not provide adequate information in the company's websites which can fulfill the queries of their potential customers and satisfy themselves to buy an insurance policy.

- **Some insurance companies create harassment on the policy holders or sometimes on the dependents of the policy holders when they want back their money after death or maturity**. The insurance companies show different causes in order to make delay to return back the money at expected time. Sometimes they are eager to pay less than the desired amount by creating various circumstances such as they try to say that the disaster of the subject matter of the policy is not responsible due to their activities. Besides this some field officials also create some illegal acts. They often try to give false information to the people for buying a policy. And these kind of illegal acts create bad reputation to the insurance companies and hindrance the overall insurance business. Those who are harassed by the insurance companies discourage other not to take an insurance policy Lack of motivation program towards public.

- **To take an insurance policy there are great number of rules and regulations which must be compelled by the insured person.** And into those rules a vast number of complexities is present there. Therefore the people are discouraged to take insurance policy because they think that the complexities will create extra pressure on their mind which may hamper other jobs.

Special Note: At the time of publication of this credit rating report by ARGUS Credit Rating Services Limited, audited financial statements until FY17 (ending December 31) and unaudited financial Q2FY18 (ending June 30). Projections for until FY18 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. Provati Insurance Company Limited (PICL)'s major underwriting business includes fire, marine, motor, and miscellaneous insurance business.

Financial Base: At the end of FY17, PICL's Total Assets stood at BDT 1,019.71 MN, Equity at BDT 500.27 MN, Paid-up Capital at BDT 297.03 MN, Investments at BDT 40.54 MN, Gross Premium at BDT 462.60 MN, Net Premium at BDT 390.69 MN, Underwriting Profit at BDT 52.80 MN and Net Profit Before Tax at BDT 68.99 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 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.	Positive
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 consists of 18 Directors. The members of the Board of Directors of the Company hold very respectable position in society. They are from highly successful groups of business and industries in Bangladesh. Each member of the Board of Directors plays a significant role in the socio-economic domain of the country. The current Chairman is Alhaj Mohammad Mofizur Rahman and the Chief Executive Officer, Mr.Md. Abdus Salam.

Table 1 Nature of Ownership/Shareholding Percentage

Shareholders	% of Shares
Sponsor & Directors	33.27%
General Public Including Unit Fund, Mutual Fund, Financial Institution etc.	66.72%

Share Holding Directors are as follows:

Name	Designation	Share %
Al-Haj Mohammad Mofizur Rahman	Chairman	2.00%
Maroof Sattar Ali	Vice Chairman	7.32%
Muhammed Mohoshin Kauser	Director	2.02%
Alhaj Mohammed Ali	Director	2.34%
Mohammad Ali Talukder	Director	2.00%
Al-Haj Shahdat Hussain	Director	2.00%
Mr. Shahjahan Kabir	Director	2.00%
Abdur Rahman Ansary	Director	2.00%
Sabrina Yeasmin	Director	2.37%
Mr. Mahabubur Rahman FCA	Independent Director	Nil
Mr. Habib-E-Alam ChowDhury	Director	.05%
Md. Mobarak Hossain	Independent Director	Nil
Mr. Prodip Kumar Das	Director	6.66%
Momin Ali	Director	0.06%
Md. Badlur Rahman Khan	Director	0.08%
Md. Habibur Rahman	Director	2.00%
Joarder Nowsher Ali FCA	Sponsor Shareholder	0.33%
Md. Ruhul Amin FCA	Sponsor Shareholder	0.00%

Source: PICL's Management

1.3 Board of Directors

Meetings of the Board of Directors are held regularly. During the year 2017, 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

Provati Insurance Company Limited (PICL)'s top-level management team comprises of the following members mentioned below:

Name	Designation
M.A. Salam	CEO
Shakawat Hossain Mamun	Additional MD & Head of Internal Audit
Md. Zahedul Islam	Company Secretary
Mohammad Nurul Huda (Duke)	Additional MD
Md. Moklesur Rahman Khan	Additional MD
Saiful Islam	DMD
Md. Nazrul Islam Mazumder	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 (PICL) operates through the Head Office located at Dhaka, Zonal Offices at Chittagong, Khulna and 55, 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	Present
Accounting Software	Present
Server and Backup Support	Present
Data Security Policy	Present
Market Research Software	Absent

1.7 Human Resource Management

Provati Insurance Company Limited (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 FY16, PICL has more than 734 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, Provati Insurance Company Limited (PICL) offers insurance products under the following broad categories:

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

2 FINANCIAL RISK ANALYSIS

2.1 Macroeconomic Performance and Prospects

2.1.1 Global Economic Outlook

Global output growth is estimated at about 3 percent (at an annualized rate) for the third quarter of 2017—broadly unchanged relative to the first two quarters of the year. This stable average growth rate, however, masks divergent developments in different country groups. There has been a stronger-than-expected pickup in growth in advanced economies, due mostly to a reduced drag from inventories and some recovery in manufacturing output. In contrast, it is matched by an unexpected slowdown in some emerging market economies, mostly reflecting idiosyncratic factors. Forward-looking indicators such as purchasing managers' indices have remained strong in the fourth quarter in most areas.

Among advanced economies, activity rebounded strongly in the United States after a weak first half of 2017, and the economy is approaching full employment. Output remains below potential in a number of other advanced economies, notably in the euro area. Preliminary third-quarter growth figures were somewhat stronger than previously forecast in some economies, such as Spain and the United Kingdom, where domestic demand held up better than expected in the aftermath of the Brexit vote. Historical growth revisions indicate that Japan's growth rate in 2017 and in preceding years was stronger than previously estimated.

The picture for emerging market and developing economies (EMDEs) remains much more diverse. The growth rate in China was a bit stronger than expected, supported by continued policy stimulus. But activity was weaker than expected in some Latin American countries currently in recession, such as Argentina and Brazil, as well as in Turkey, which faced a sharp contraction in tourism revenues. Activity in Russia was slightly better than expected, in part reflecting firmer oil prices.

Commodity prices and inflation. Oil prices have increased in recent weeks, reflecting an agreement among major producers to trim supply. With strong infrastructure and real estate investment in China as well as expectations of fiscal easing in the United States, prices for base metals have also strengthened. Headline inflation rates have recovered in advanced economies in recent months with the bottoming out of commodity prices, but core inflation rates have remained broadly unchanged and generally below inflation targets. Inflation ticked up in China as capacity cuts and higher commodity prices have pushed producer price inflation to positive territory after more than four years of deflation. In other EMDEs, inflation developments have been heterogeneous, reflecting differing exchange rate movements and idiosyncratic factors.

Financial market developments. Long-term nominal and real interest rates have risen substantially since August (the reference period for the October 2017 WEO), particularly in the United Kingdom and in the United States since the November election. As of January 3, nominal yields on 10-year U.S. Treasury bonds have increased by close to one percentage point since August, and 60 basis points since the U.S. election. These changes have been mostly driven by an anticipated shift in the U.S. policy mix. Specifically, U.S. fiscal policy is projected to become more expansionary, with stronger future demand implying more inflationary pressure and a less gradual normalization of U.S. monetary policy. The increase in euro area long-term yields since August was more moderate—some 35 basis points in Germany but 70 basis points in Italy, reflecting elevated political and banking sector uncertainties. The U.S. Federal Reserve raised short-term interest rates in December, as expected, but in most other advanced economies the monetary policy stance has remained broadly unchanged. In emerging market economies, financial conditions were heterogeneous but generally tightened, with higher long-term interest rates on local-currency bonds, especially in emerging Europe and Latin America. Policy rate changes since August also reflected this heterogeneity—with rate hikes in Mexico and Turkey and cuts in Brazil, India, and Russia—as did changes in EMBI (Emerging Market Bond Index) spreads.

***Exchange rates and capital flows*.** The U.S. dollar has appreciated in real effective terms by over 6 percent since August. The currencies of advanced commodity exporters have also strengthened, reflecting the firming of commodity prices, whereas the euro and especially the Japanese yen have weakened. Several emerging market currencies depreciated substantially in recent months—most notably the Turkish lira and the Mexican peso—while the currencies of several commodity exporters—most notably Russia—appreciated. Preliminary data point to sharp nonresident portfolio outflows from emerging markets in the wake of the U.S. election, following a few months of solid inflows.

Advanced economies are now projected to grow by 1.9 percent in 2017 and 2.0 percent in 2018, 0.1 and 0.2 percentage points more than in the October forecast, respectively. As noted, this forecast is particularly uncertain in light of potential changes in the policy stance of the United States under the incoming administration. The projection for the United States is the one with the highest likelihood among a wide range of possible scenarios. It assumes a fiscal stimulus that leads growth to rise to 2.3 percent in 2017 and 2.5 percent in 2018, a cumulative increase in GDP of ½ percentage point relative to the October forecast. Growth projections for 2017 have also been revised upward for Germany, Japan, Spain, and the United Kingdom, mostly on account of a stronger-than-expected performance during the latter part of 2016. These upward revisions more than offset the downward revisions to the outlook for Italy and Korea.

The primary factor underlying the strengthening global outlook over 2017–18 is, however, the projected pickup in EMDEs' growth. As discussed in the October WEO, this projection reflects to an important extent a gradual normalization of conditions in a number of large economies that are currently experiencing macroeconomic strains. EMDE growth is currently estimated at 4.1 percent in 2016, and is projected to reach 4.5 percent for 2017, around 0.1 percentage point weaker than the October forecast. A further pickup in growth to 4.8 percent is projected for 2018.

Notably, the growth forecast for 2017 was revised up for China (to 6.5 percent, 0.3 percentage point above the October forecast) on expectations of continued policy support. However, continued reliance on policy stimulus measures, with rapid expansion of credit and slow progress in addressing corporate debt, especially in hardening the budget constraints of state-owned enterprises, raises the risk of a sharper slowdown or a disruptive adjustment. These risks can be exacerbated by capital outflow pressures, especially in a more unsettled external environment.

Nigeria's forecasts were also revised up, primarily reflecting higher oil production due to security improvements.

Growth forecasts for 2017 were instead revised down in a number of other regions:

In India, the growth forecast for the current (2016–17) and next fiscal year were trimmed by one percentage point and 0.4 percentage point, respectively, primarily due to the temporary negative consumption shock induced by cash shortages and payment disruptions associated with the recent currency note withdrawal and exchange initiative.

Elsewhere in emerging Asia, growth was also revised down in Indonesia, reflecting weaker-than-projected private investment, and in Thailand, in light of a slowdown in consumption and tourism.

In Latin America, the growth downgrade reflects to an important extent more muted expectations of short-term recovery in Argentina and Brazil following weaker-than-expected growth outturns in the second half of 2016, tighter financial conditions and increased headwinds from U.S.-related uncertainty in Mexico, and continued deterioration in Venezuela.

In the Middle East, growth in Saudi Arabia is expected to be weaker than previously forecast for 2017 as oil production is cut back in line with the recent OPEC agreement, while civil strife continues to take a heavy toll on a number of other countries.

Risks to the global growth outlook are two sided but are assessed to be skewed to the downside, especially over the medium term:

Recent political developments highlight a fraying consensus about the benefits of cross-border economic integration. A potential widening of global imbalances coupled with sharp exchange rate movements, should those occur in response to major policy shifts, could further intensify protectionist pressures. Increased restrictions on global trade and migration would hurt productivity and incomes, and take an immediate toll on market sentiment.

In those advanced economies where balance sheets remain impaired, an extended shortfall in private demand and inadequate progress on reforms (including bank balance sheet repair) could lead to permanently lower growth and inflation, with negative implications for debt dynamics.

In addition to the risks already mentioned in the previous section, underlying vulnerabilities remain among some other large emerging market economies. High corporate debt, declining profitability, weak bank balance sheets, and thin policy buffers imply that these economies are still exposed to tighter global financial conditions, capital flow reversals, and the balance sheet implications of sharp depreciations. In many low-income economies, low commodity prices and expansionary policies have eroded fiscal buffers and led in some cases to a precarious economic situation, heightening their vulnerability to further external shocks.

Geopolitical risks and a range of other noneconomic factors continue to weigh on the outlook in various regions—civil war and domestic conflict in parts of the Middle East and Africa, the tragic plight of refugees and migrants in neighboring countries and in Europe, acts of terror worldwide, the protracted effects of a drought in eastern and southern Africa, and the spread of the Zika virus. If these factors intensify, they would deepen the hardship in directly affected countries. Increased geopolitical tensions and terrorism could also take a large toll on global market sentiment and economic confidence.

On the upside, the support to activity from policy stimulus in the United States and/or China could turn out to be larger than what has been incorporated into current forecasts, which also would result in a stronger pickup of activity in their trading partners unless the positive spillovers are tempered by protectionist trade policies. Upside risks also include higher investment if confidence in the recovery of global demand strengthens, as some financial market indicators seem to suggest.

The baseline forecast for the global economy points to a pickup in growth over the rest of the forecast horizon from its subdued pace this year, in the context of positive financial market sentiment, especially in advanced economies. Nonetheless, the potential for disappointments is high, as underscored by repeated growth markdowns in recent years. Against this backdrop, and given the diversity in cyclical positions and policy space, priorities differ across individual economies:

In those advanced economies where output gaps are still negative and wage pressures muted, the risk of persistent low inflation (or deflation, in some cases) remains. Monetary policy therefore must remain accommodative, relying on unconventional strategies as needed. But accommodative monetary policy alone cannot lift demand sufficiently, and fiscal support—calibrated to the amount of space available and oriented toward policies that protect the vulnerable and lift medium-term growth prospects—therefore remains essential for generating momentum. In cases where fiscal adjustment cannot be postponed, its pace and composition should be calibrated to minimize the drag on output.

In those advanced economies without substantially negative output gaps, any fiscal support should be targeted toward strengthening safety nets (including for aiding the integration of refugees in some cases) and increasing longer-term potential output through high-quality infrastructure investment and supply-friendly and equitable tax reform. In such cases, well-anchored inflation expectations should allow for a gradual pace in the normalization of monetary policy.

More broadly, accommodative macroeconomic policies must be accompanied by and support structural reforms that can counteract waning potential growth—including efforts to boost labor force participation, encourage investments in skills, improve the matching process in labor markets, liberalize entry into closed professions, increase dynamism and innovation in product and service markets, and promote business investment, including in research and development.

Emerging market and developing economies face starkly diverse cyclical positions and structural challenges. In general, enhancing financial resilience can reduce the vulnerability to a tightening of global financial conditions, sharp currency movements, and the risk of capital flow reversals. Economies with large and rising nonfinancial debt, unhedged foreign liabilities, or heavy reliance on short-term borrowing to fund longer-term investments must adopt stronger risk management practices and contain balance sheet mismatches.

In low-income countries that have seen their fiscal buffers decrease over the last few years, the priority is to restore those buffers while continuing to spend efficiently on critical capital needs and social outlays, strengthen debt management, improve domestic revenue mobilization, and implement structural reforms—including in education—that pave the way for economic diversification and higher productivity.

For the countries hardest hit by the decline in commodity prices, the recent market firming provides some relief, but the adjustment to reestablish macroeconomic stability is urgent. This implies allowing the exchange rate to adjust in countries not relying on an exchange rate peg, tightening monetary policy where needed to tackle increases in inflation, and ensuring that needed fiscal consolidation is as growth-friendly as possible. The latter is particularly important in countries with pegs, where the exchange rate cannot act as a shock absorber. Over the longer term, countries highly dependent on one or a few commodity products should work to diversify their export bases.

With growth weak and policy space limited in many countries, continued multilateral effort is required in several areas to minimize risks to financial stability and sustain global improvements in living standards. This effort must proceed simultaneously on a number of fronts. To share the long-term benefits of economic integration more broadly, policymakers must ensure that well-targeted initiatives are in place to help those adversely affected by trade opening and to facilitate their ability to find jobs in the sectors of the economy that are expanding. Economic fairness also calls for multilateral and national efforts to crack down on tax evasion and prevent tax avoidance practices. Efforts to strengthen the resilience of the financial system must continue, including by recapitalizing institutions and cleaning up balance sheets where necessary, ensuring effective national and international banking resolution frameworks, and addressing emerging risks from nonbank intermediaries. A stronger global safety net can protect economies with robust fundamentals that may nevertheless be vulnerable to cross-border contagion and spillovers. Last but not least, multilateral cooperation is also indispensable to address important longer-term global challenges, such as meeting the 2018 Sustainable Development Goals, mitigating and coping with climate change, and preventing the spread of global epidemics.

2.1.2 Developments in the Bangladesh Economy

Bangladesh economy remained strong and resilient despite external and internal challenges. Bangladesh is among the top 12 developing countries with a population of over 20 million, who achieved 6 plus percent growth in 2017. By any standards, Bangladesh economy has done well. Bangladesh needs to focus on a growth agenda centered on sustainable and inclusive growth.

The balance of payment (BoP) remains comfortable with a large surplus in both current and financial accounts, due to recovery in export, increased Foreign Direct Investment and aid disbursements. Monetary targets are underachieved due to limited growth in domestic credit.

The market-based economy of Bangladesh is the 43rd largest in the world in nominal terms, and 31st largest by purchasing power parity; it is classified among the Next Eleven emerging market economies and a Frontier market. According to the IMF, Bangladesh's economy is the second fastest growing major economy of 2017, with a rate of 7.1%.Dhaka and Chittagong are the principal financial centers of the country, being home to the Dhaka Stock Exchange and the Chittagong Stock Exchange. The financial sector of Bangladesh is the second largest in the subcontinent.

In the decade since 2004, Bangladesh averaged a GDP growth of 6.5%, that has been largely driven by its exports of readymade garments, remittances and the domestic agricultural sector. The country has pursued export-oriented industrialization, with its key export sectors include textiles, shipbuilding, fish and seafood, jute and leather goods. It has also developed self-sufficient industries in pharmaceuticals, steel and food processing. Bangladesh's telecommunication industry has witnessed rapid growth over the years, receiving high investment from foreign companies. Bangladesh also has substantial reserves of natural gas and is Asia's seventh largest gas producer. Offshore exploration activities are increasing in its maritime territory in the Bay of Bengal. It also has large deposits of limestone. The government promotes the Digital Bangladesh scheme as part of its efforts to develop the country's growing information technology sector.

Bangladesh is strategically important for the economies of Northeast India, Nepal and Bhutan, as Bangladeshi seaports provide maritime access for these landlocked regions and countries. China also views Bangladesh as a potential gateway for its landlocked southwest, including Tibet, Sichuan and Yunnan.

In 2017, per-capita income was estimated as per IMF data at US$ 4,561 (PPP) and US$1,734 (Nominal). Bangladesh is a member of the Commonwealth of Nations, D-8 Organization for Economic Cooperation, the South Asian Association for Regional Cooperation, the International Monetary Fund, the World Bank, the World Trade Organization and the Asian Infrastructure Investment Bank. The economy faces challenges of infrastructure bottlenecks, insufficient power and gas supplies, bureaucratic corruption, political instability, natural calamities and a lack of skilled workers.

Income growth prospects in Bangladesh's main export markets are uneven, but sustained low oil prices bode well for external and internal balance. With modest fiscal expansion and some easing of the infrastructure bottlenecks, GDP growth is projected to rise gradually towards 7 plus percent.

2.1.3 Near and Medium Term Outlook for Bangladesh Economy

GDP growth in Bangladesh will continue to grow at a stable rate, averaging annually 7 percent in the near to medium term. Moderate recovery in the euro area and USA will have positive effect on growth provided that domestic private investment picked up. The increase in the public consumption from the implementation of new pay scale, large infrastructure spending on power, road communication, transportation and establishment of Special Economic Zones (SEZ) will bring about a momentum of the GDP growth in the near to medium term.

CPI inflation will remain low in the short term. Moreover, low inflation is supported by supply factors and the declining import prices. Over the medium term the impact of these factors on inflation will gradually fade away, yet inflation is expected to remain below the Government projection (around 6 percent) made in the 7th Five Year Plan.

The FY17 monetary programs projects 16.5 percent domestic credit growth against preceding year's 10.4 percent actual; to accommodate 7.0 percent real GDP growth with 6.2 percent inflation. The domestic demand growth is expected to pick up steadily in the near and medium term as a result of improvements in business environments. Moreover rapid growth in gross fixed capital formation in the public sector will continue to have a positive impact on growth of corporate capital expenditure. Investment will also be fuelled by the expected continuation of good financial standing of enterprises, allowing them to finance investment with their own funds.

2.1.4 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.

2.2 Company Specific Risk Analysis

2.2.1 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

2.2.2 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

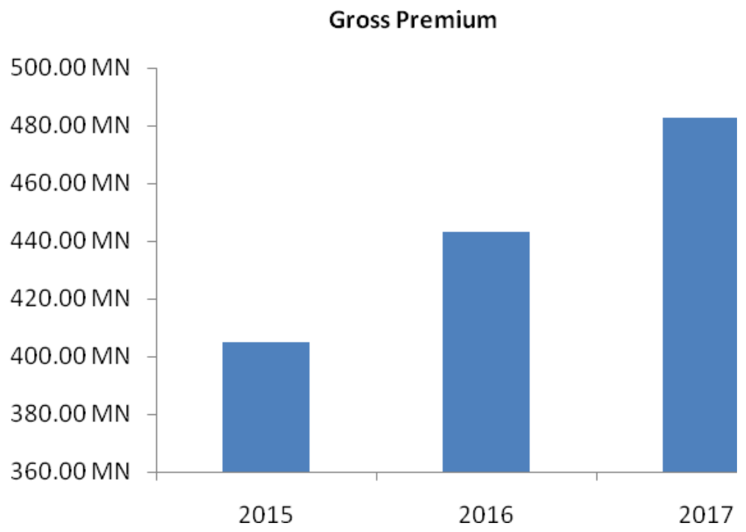
3.1 OPERATING PERFORMANCE ANALYSIS

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	2015	2016		2017		Observations	Bias
Gross Premium Growth	21.75%	9.44%	↑	8.87%	↑	Gross premium growth of PICL demonstrated an increasing trend in recent year.	Positive
Net Premium Growth	27.13%	13.13%	↑	8.89%	↑	Net premium growth of PICL demonstrated an increasing trend in recent year.	Positive
Claims Ratio	41.99%	46.99%	↑	50.74%	↑	Claims ratio of PICL demonstrated a decreasing trend in recent year.	Neutral
Expense Ratio	39.26%	38.05%	↓	37.84%	↓	Expense ratio of PICL demonstrated a decreasing trend over the last 3 years.	Positive
Combined Ratio	81.25%	85.03%	↑	88.58%	↑	Combined ratio of PICL demonstrated an increasing trend over the last 3 years.	Positive
Retention Ratio	78.30%	80.94%	↑	80.96%	↑	Recently retention ratio of PICL demonstrated a slight increase.	Positive

3.1.1 Gross Premium

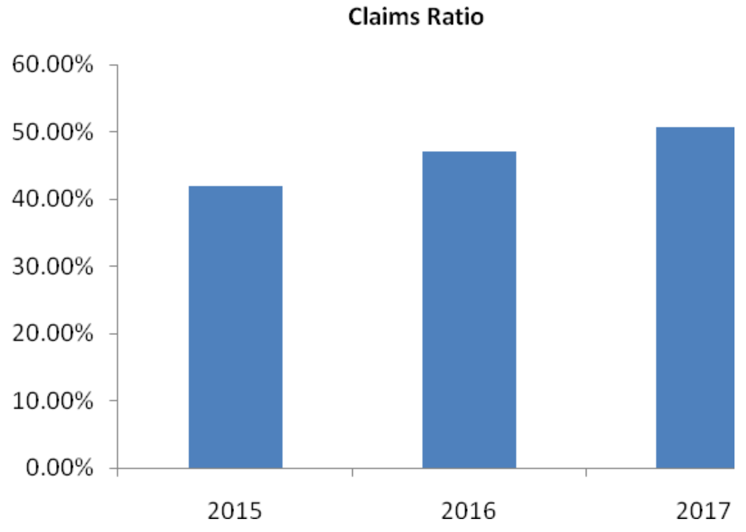
	FY15	FY16	FY17
Gross Premium (in BDT)	405.07 MN	443.30 MN	482.60 MN



- **Historical Trend:** Between FY15 to FY17, PICL's gross premium demonstrates an increasing trend. The gross premium of PICL reached to BDT 482.60 MN in FY17 from BDT 443.30 MN in FY16 which was 405.07 MN in FY15 representing a 2-year CAGR of 9.15%.
- **Looking forward:** ACRSL has a positive bias on PICL's gross premium trajectory. PICL's management assumes that their qualified marketing team will be able to increase its present market share.

3.1.2 Claims Ratio

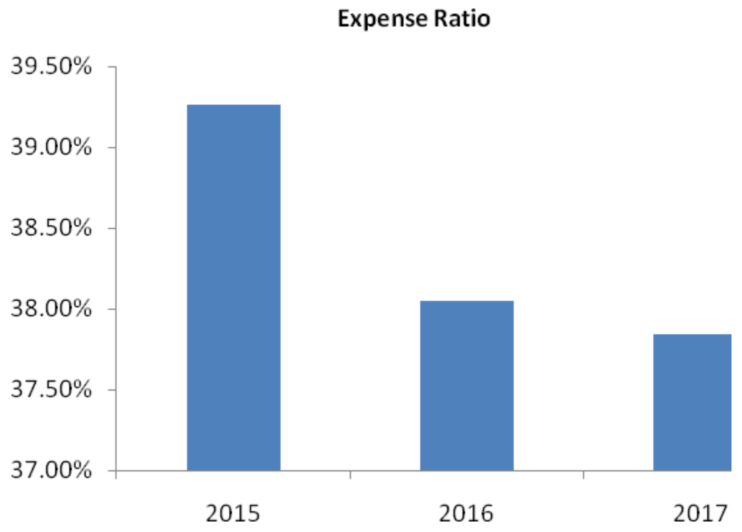
	FY15	FY16	FY17
Claims Ratio	41.99%	46.99%	50.74%



- **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 increasing trend. The claims ratio of PICL stood at 41.99% in FY15 which increased to 46.99% in FY16 and remained 50.74% in FY17.
- **Looking forward:** ACRSL has a neutral bias on PICL's claims ratio for FY18. 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

	FY15	FY16	FY17
Expense Ratio	39.26%	38.05%	37.84%



- **Historical Trend: Historical Trend:** Between FY15 to FY16, PICL's expense ratio demonstrates a decreasing trend. During FY15-FY16, expense ratio decreased from 39.26% in FY15 to 38.05% in FY16. Subsequently, during the period FY16-FY17, the expense ratio further decreased to 37.84%.
- **Looking Forward:** ACRSL has a positive bias on PICL's expense ratio for FY18. Given the historical trend, ACRSL research projects that PICL's management expense ratio will follow a gradual decreasing trend.

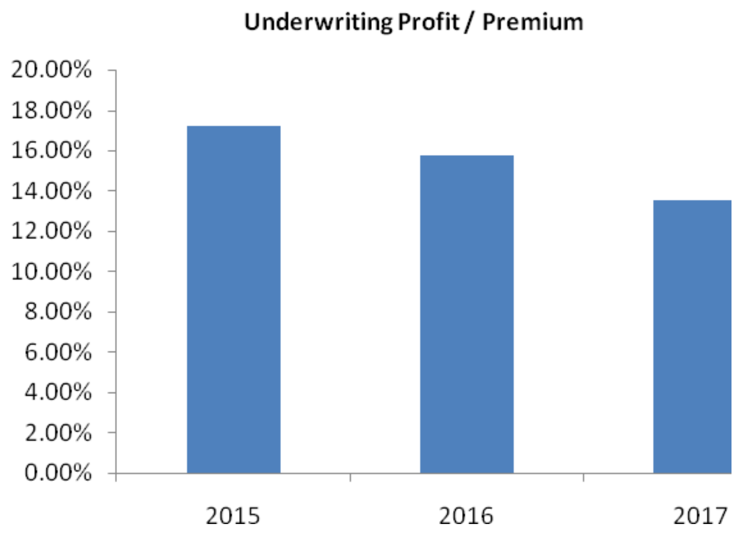
3.2 Profitability Analysis

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 FY15 and FY17, PICL's profitability ratios performed moderately.

Indicators	2015	2016		2017		Observations	Bias
Underwriting Profit / Premium	17.19%	15.76%	↓	13.51%	↓	Underwriting profit to premium of PICL has demonstrated a decreasing trend during last three years.	Negative
Investment Yield	7.19%	6.52%	↓	6.86%	↑	Investment Yield of PICL has demonstrated a fluctuating trend during last three years	Neutral
Net Profit / Premium	16.11%	14.14%	↓	13.20%	↓	Net profit to premium of PICL demonstrated a decreasing trend over the last 3 years.	Negative
Net Profit / Total Income	13.84%	12.51%	↓	11.68%	↓	Net profit to total income of PICL demonstrated a decreasing trend over the last 3 years.	Neutral
ROE	11.89%	10.91%	↓	10.31%	↓	ROE of PICL demonstrated a decreasing trend over the last 3 years.	Neutral
ROA	6.52%	5.35%	↓	5.06%	↓	ROA of PICL demonstrated a decreasing trend over the last 3 years.	Neutral

3.2.1 Underwriting Profit / Premium

	FY15	FY16	FY17
Underwriting Profit / Premium	17.19%	15.76%	13.51%



- **Historical Trend:** PICL historically has maintained a decreasing trend underwriting profit to net premium ratio. During FY15-FY16, the ratio decreased from 17.19% to 15.76%. Subsequently, the ratio further decreased to 13.51% in FY17.
- **Looking Forward:** ACRSL has a positive bias on SIL's underwriting profit to premium ratio for FY18 and onwards. We anticipate, SIL will be able to increase its net premium in FY18 and report a stable net claim amount.

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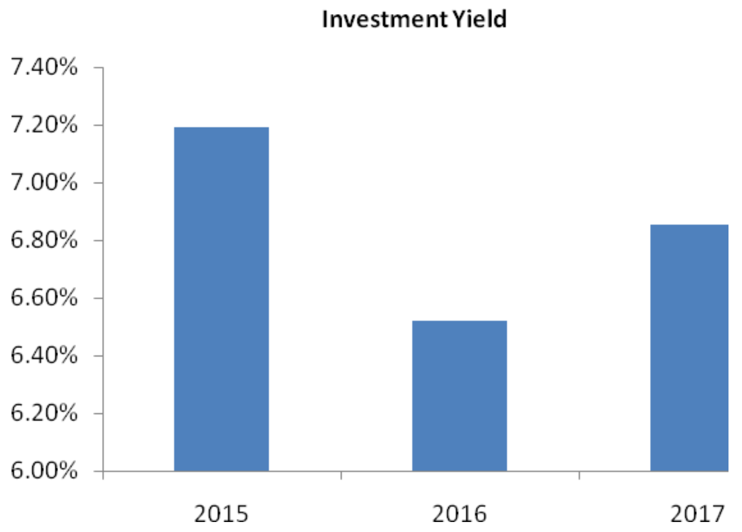
3.2.2 Investment Yield

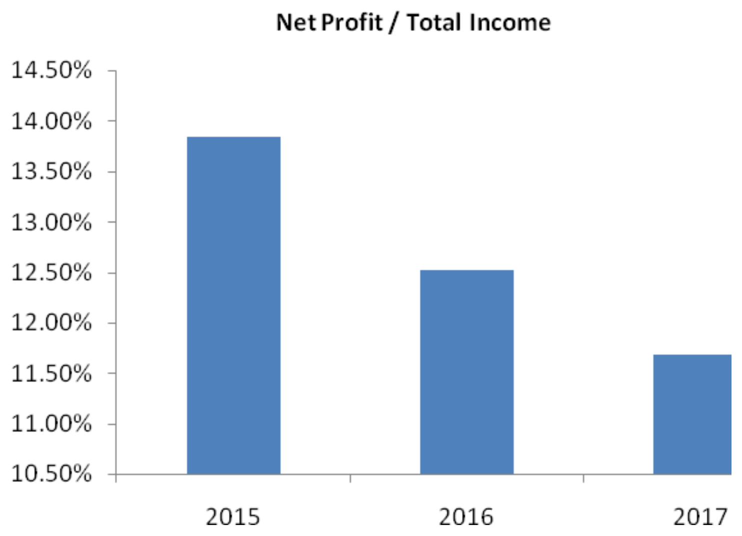
	FY15	FY16	FY17
Investment Yield	7.19%	6.52%	6.86%



- **Historical Trend:** Historically PICL has maintained a moderate investment yield. During FY15-FY16, the ratio decreased from 7.19% to 6.52%.Subsequently in FY17, yield from investment increased to 6.86%.
- **Looking Forward:** ACRSL has a Nutral bias on PICL's investment yield for FY18. 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 FY18.

3.2.3 Net Profit / Total Income

	FY15	FY16	FY17
Net Profit / Total Income	13.84%	12.51%	11.68%



- **Historical Trend:** PICL historically has demonstrated a decreasing trend net profit to total income ratio. The ratio of PICL reached to 11.68% in FY17 from 12.51% in FY16 which was 13.84% in FY15.
- **Looking Forward:** ACRSL has a neutral bias on PICL's net profit to total income ratio for FY18. 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.

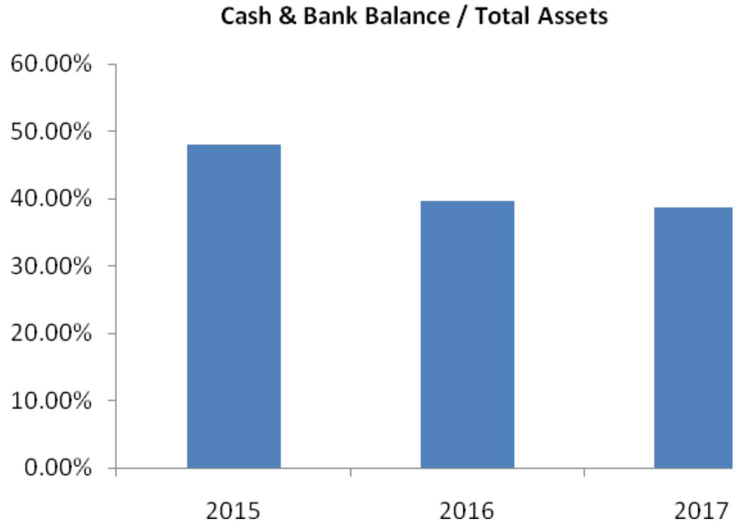
3.3 Liquidity Analysis

During the last three years, PICL has reported a satisfactory liquidity performance. During the last three years, PICL's cash & bank balance and overall liquidity positions remained in comfort level, which is positive..

Indicators	2015	2016		2017		Observations	Biased
Cash & Bank Balance / Total Assets	48.0%	39.60%	↓	38.74%	↓	Cash & bank balance to total assets of PICL demonstrated a decreasing trend over the last three years	Neutral
Liquid Asset / Net Claim	3.15x	2.46x	↓	2.20x	↓	Liquid asset to net claim of PICL demonstrated a decreasing trend over the last three years	Neutral
Overall Liquidity	3.45x	2.79x	↓	2.81x	↑	Overall liquidity of PICL demonstrated fluctuating trend over the last three years	Neutral

3.3.1 Cash & Bank Balance / Total Assets

	FY15	FY16	FY17
Cash & Bank Balance / Total Assets	48.00%	39.60%	38.74%

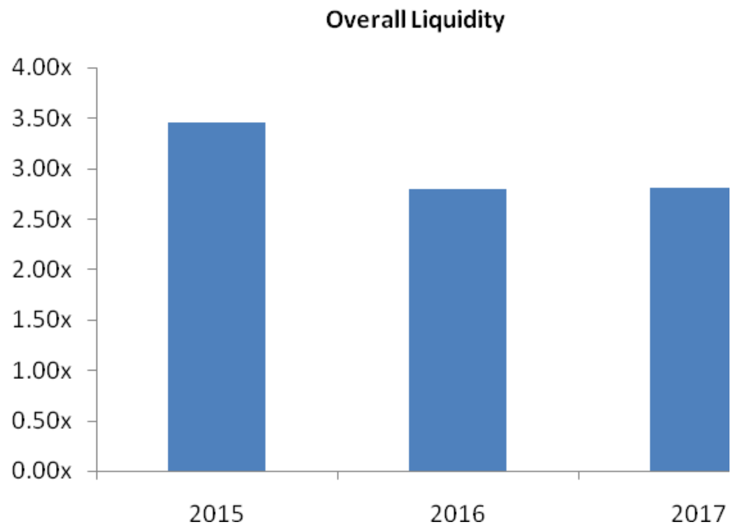


- **Historical Trend:** Historically, PICL has maintained a high cash & bank balance to total assets, which is positive. But though the last three years, the ratio demonstrates a decreasing trend. The ratio of PICL reached to 38.74% in FY17 from 39.60% in FY16 which was 48.00% in FY15.

- **Looking Forward:** ACRSL has a neutral bias on PICL's cash & bank balance to total assets ratio for FY18. 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

	FY15	FY16	FY17
Overall Liquidity	3.45x	2.79x	2.81x



- **Historical Trend:** Historically, PICL has maintained a high overall liquidity ratio, which is positive. But during the last three years, the ratio demonstrates a fluctuating trend. The ratio of PICL reached to 2.81x in FY17 which was 2.79 in FY16 and 3.45x in FY15.
- **Looking Forward:** ACRSL has a neutral bias on PICL's overall liquidity ratio for FY18. 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.

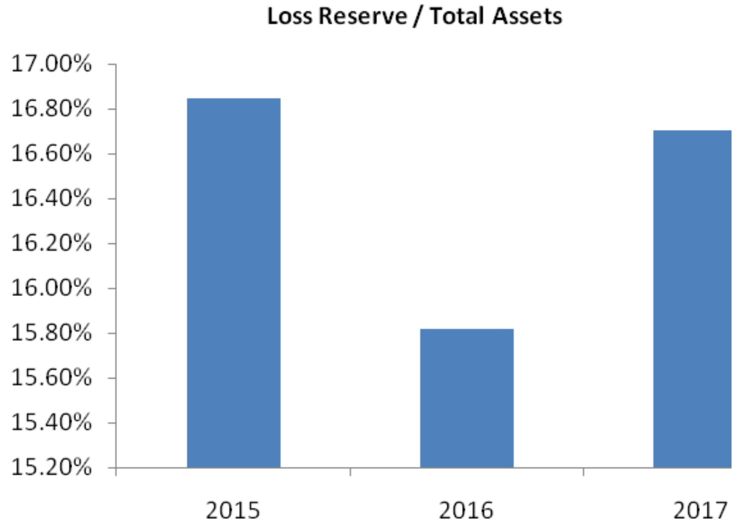
3.4 Balance Sheet Analysis

During the last three years, PICL has maintained moderate balance sheet ratios. Over the last three years from FY14-FY16, most of the balance sheet related ratios showed overall underperforming results when compared to peers.

Indicators	2015	2016		2017		Observations	Bias
Net Premium / Total Equity	73.78%	77.20%	↑	78.10%	↑	Net premium to total equity of PICL demonstrated an increasing trend in recent year.	Positive
Net Liabilities / Total Equity	52.88%	73.19%	↑	72.58%	↑	Net liabilities to total equity of PICL demonstrated a fluctuating trend over the last 3 years	Negative
Loss Reserve / Total Assets	16.85%	15.82%	↓	16.70%	↑	Loss reserve to total assets of PICL demonstrated a fluctuating trend over the last 3 years	Positive
Balance of Funds / Total Assets	16.18%	15.14%	↓	15.33%	↑	Balance of funds to total assets of PICL demonstrated a fluctuating trend in recent year.	Neutral
Total Asset Growth	13.99%	20.96%	↑	7.51%	↑	Total asset growth of PICL demonstrated an increasing trend over the last 3 years	Positive

3.4.1 Loss Reserve / Total Assets

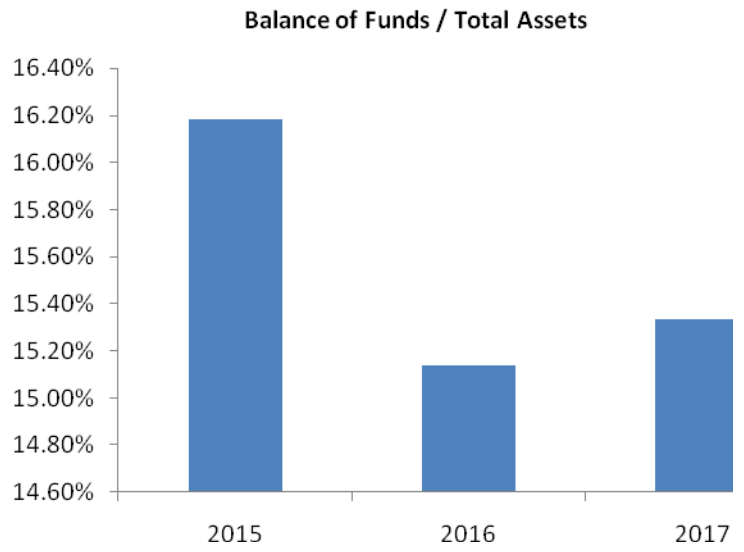
	FY15	FY16	FY17
Loss Reserve / Total Assets	16.85%	15.82%	16.70%



- **Historical Trend:** Historically, PICL has maintained high loss reserve to total assets ratio which is positive . During the last three years, the ratio demonstrates a fluctuating trend. Between FY15-FY16, the ratio decreased from 16.85% to 15.82%. Subsequently, during FY16-FY17, the ratio increased to 16.70%.
- **Looking Forward:** ACRSL has a positive bias on PICL's loss reserve to total assets ratio for FY18. 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

	FY15	FY16	FY17
Balance of Funds / Total Assets	16.18%	15.14%	15.33%



- **Historical Trend:** Historically, PICL has maintained a low balance of funds to total assets ratio. During the last three years, the ratio demonstrates a fluctuating trend. The ratio of PICL reached to 15.33% in FY17 from 15.14% in FY16 which was 16.18% in FY15.
- **Looking Forward:** ACRSL has a positive bias on PICL's balance of funds to total assets for FY18. We are assuming that PICL will be able to report positive growth in net premium, thus, balance of funds will increase. Therefore, we are expecting PICL to report an increasing balance of funds to total assets ratio in the near future.

4 CORPORATE GOVERNANCE

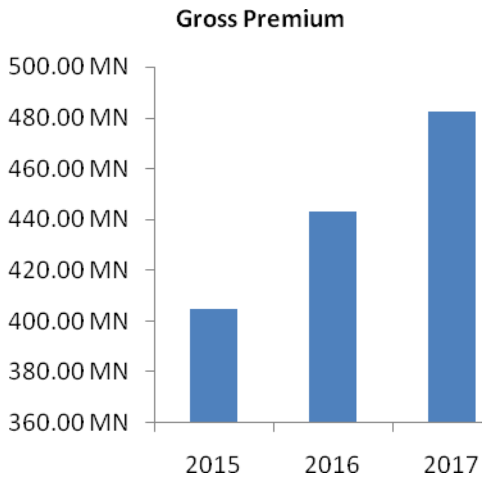
Board Practice	Presence/Absence
Existence of Board Charter	Present
Existence of Committees for audit and remuneration	Present
Separate CEO and Chairperson	Present
Procedures to review/address external audit findings	Present

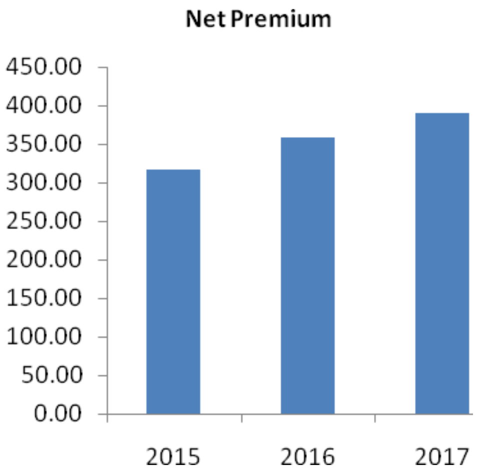
Code of Ethics/Conduct	Presence/Absence
Commitment to legal and regulatory compliance	Present
Policies to prohibit facilitation payments and bribes	Present
Guidelines on giving and receiving gifts	Absent
Training and/or communication on code of ethics	Present

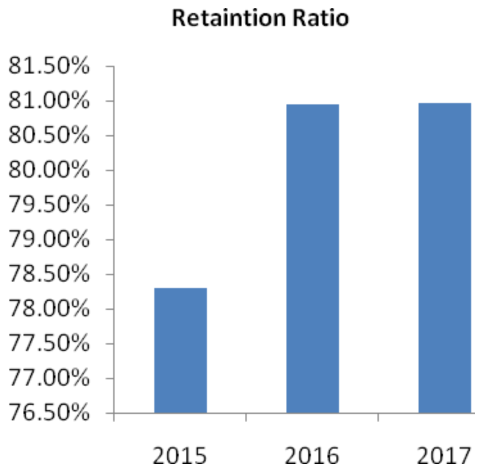
Business Value and Risk Management	Presence/Absence
Demonstrated commitment to work towards long term sustainability	Present
Demonstrated commitment to address social, ethical and environment	Present
Procedures to identify potential risks and opportunities	Present
Risk Management and Internal Control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

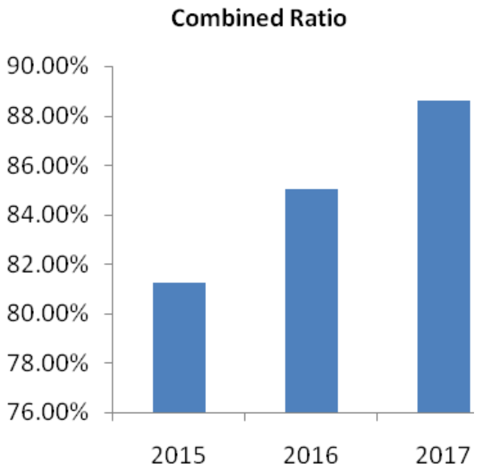
5 CHARTS

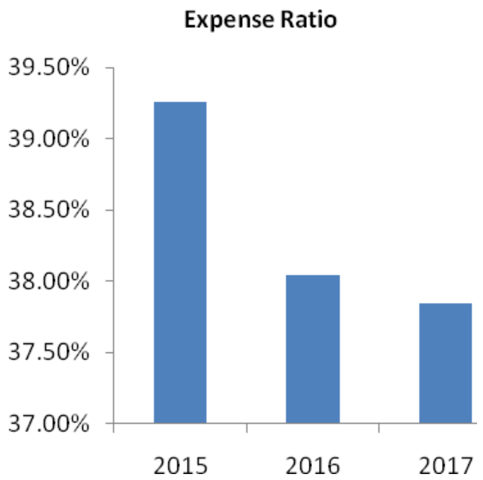
5.1 Operating Performance Analysis

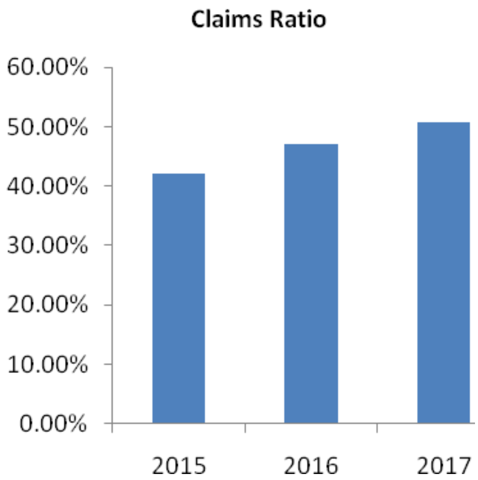




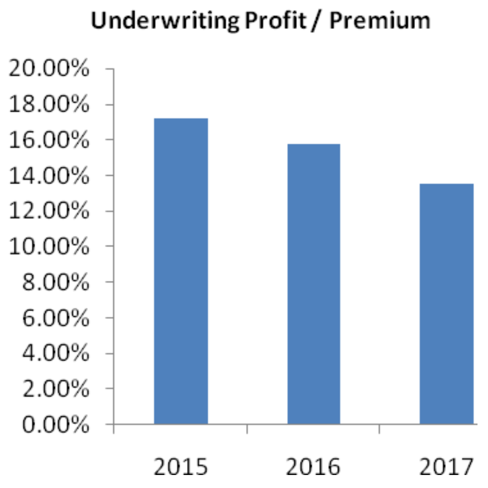


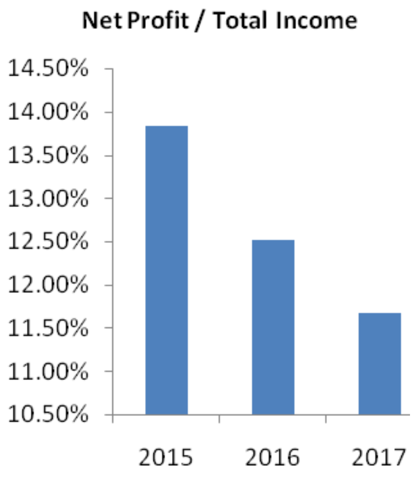


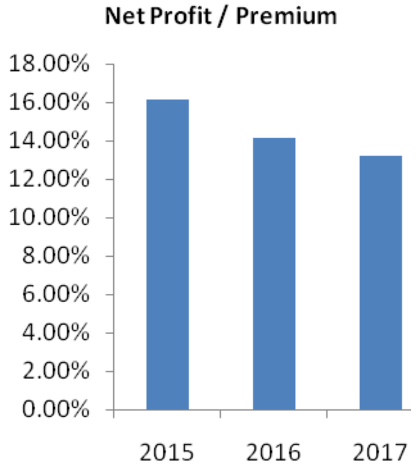




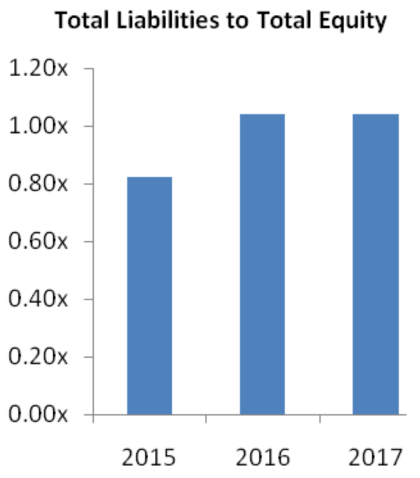
5.2 PROFITABILITY ANALYSIS

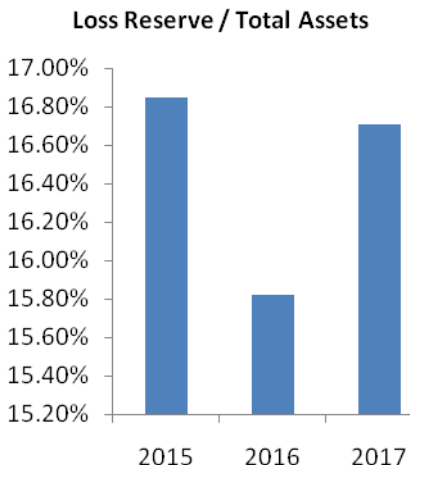


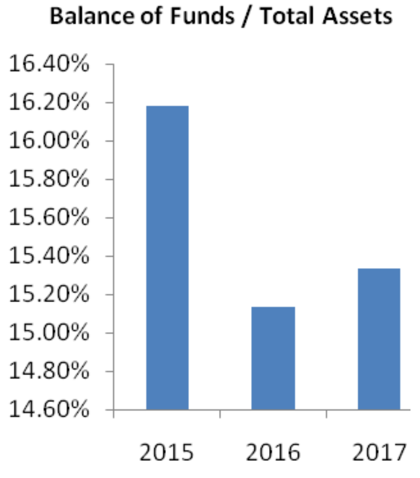


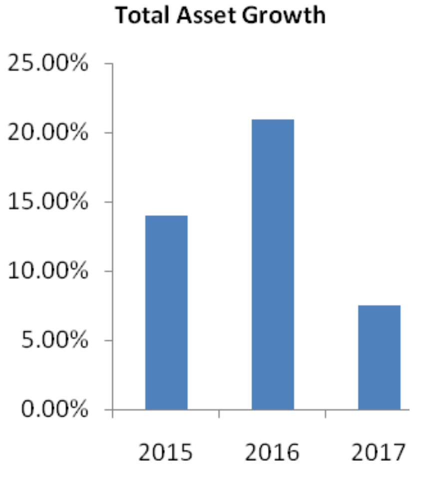


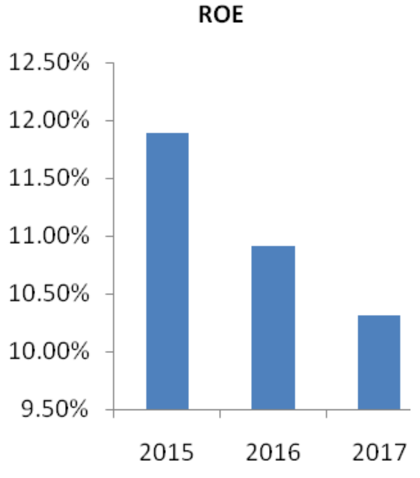
5.3 Balance Sheet Analysis

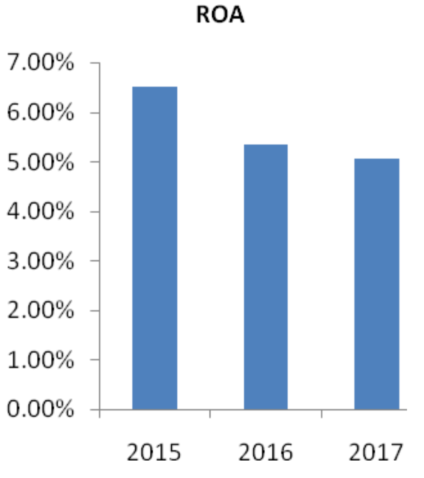




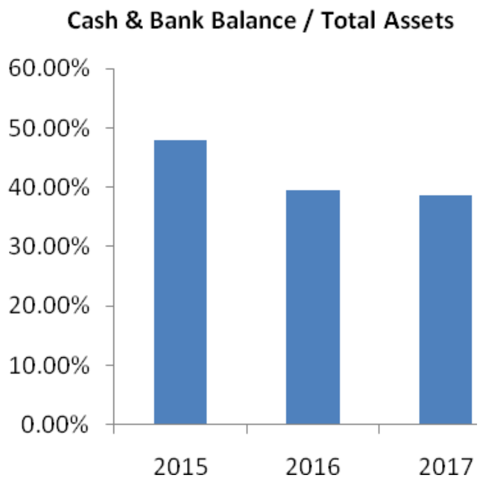


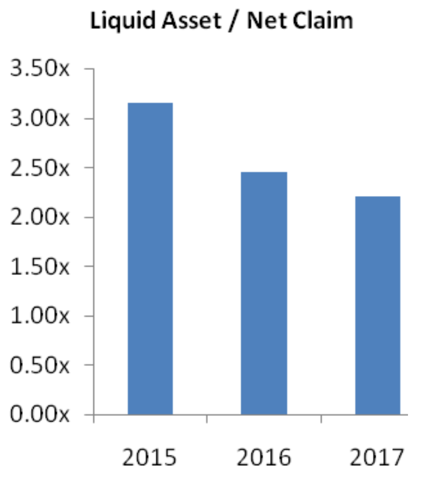


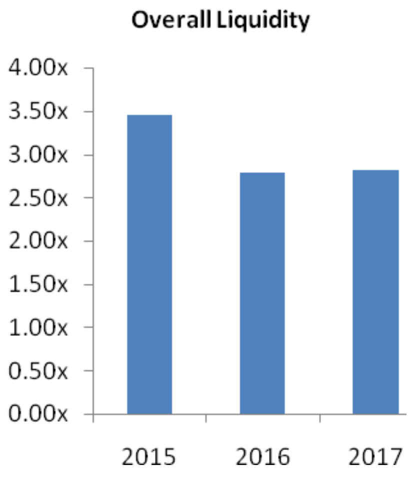




5.4 Liquidity Analysis







Appendix A: Summary of Financial Metrics

*in BDT MN

Balance Sheet Metrics	2015	2016	2017
Paid-Up Capital	264.35	280.21	297.03
Total Reserve	132.08	150.02	170.33
Total Equity	429.89	464.75	500.27
Balance of Funds	126.88	143.56	156.36
Liabilities & Provisions	207.51	310.63	332.87
Investments	42.88	38.49	40.54
Cash & Bank Balance	376.39	375.58	395.02
Fixed Assets (At Cost less Depr.)	120.55	147.03	143.28
Total Assets	**784.09**	**948.46**	**1019.71**

Income Statement Metrics	2015	2016	2017
Interest Income	30.55	23.74	22.94
Investment Income	-0.70	-0.70	6.69
Net Premium	317.15	358.79	390.69
Net Claims	133.16	168.59	198.23
Commission	60.76	66.49	72.39
Management Expenses	63.75	70.02	75.45
Underwriting Profit	54.53	56.55	52.80
Net Profit Before Tax	74.47	70.84	68.99
Net Profit After Tax	51.10	50.72	51.56

Consolidated Rev. Account Metrics	2015	2016	2017
Gross Premium	405.07	443.30	482.60
Re-insurance Premium	87.91	84.51	91.91
Net Premium	317.15	358.79	390.69
Commission on Re-insurance	21.96	19.53	20.98
Agency Commission	60.76	102.82	111.12
Last year's Unexpired Risk	99.97	126.88	143.56
Net Claims	133.16	168.59	198.23
Management Expenses	63.75	70.02	75.45
Reserve for Unexpired Risk	126.88	143.56	156.36
Underwriting Profit	54.53	56.55	52.80

Source: PICL Annual Reports FY15 to FY17

Appendix B: Summary of Analytics

Indicators	2015	2016	2017
Total Income Growth	20.00%	9.76%	8.94%
Gross Premium Growth	21.75%	9.44%	8.87%
Net Premium Growth	27.11%	13.13%	8.89%
Retention Ratio	78.30%	80.94%	80.96%
Claims Ratio	41.99%	46.99%	50.74%
Expense Ratio	39.26%	38.05%	37.84%
Combined Ratio	81.25%	85.03%	88.58%
Underwriting Profit / Premium	17.19%	15.76%	13.51%
Investment Yield	7.19%	6.52%	6.86%
Net Profit / Premium	16.11%	14.14%	13.20%
Net Profit / Total Income	13.84%	12.51%	11.68%
Net Profit Growth	16.33%	-0.74%	1.66%
Cash & Bank Balance / Total Assets	48.00%	39.60%	38.74%
Liquid Asset / Net Claim	3.15x	2.46x	2.20x
Overall Liquidity	3.45x	2.79x	2.81x
Net Premium / Total Equity	73.78%	77.20%	78.10%
Net Liabilities / Total Equity	52.88%	73.19%	72.58%
Total Liabilities / Total Equity	82.39%	104.08%	103.83%
Loss Reserve / Total Assets	16.85%	15.82%	16.70%
Balance of Funds / Total Assets	16.18%	15.14%	15.33%
Investments in Share / Total Assets	4.16%	2.90%	3.11%
Total Asset Growth	13.99%	20.96%	7.51%
ROA	6.52%	5.35%	5.06%
ROE	11.89%	10.91%	10.31%

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	**Highest Grade** 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 Grade** 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 Grade** 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	**Satisfactory Grade** 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	**Non-Investment Grade** 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	**Default** Insurance companies rated in this category are adjudged to be currently in default.